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WORLD NEWS

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Brussels in euro note programme
The European Commission aims to raise the visibility of the euro among international investors with the launch of a euro denominated medium-term note programme next Tuesday, a day after trading begins. Page 2

Khmer Rouge chiefs apologise
Two top Khmer Rouge leaders offered the first apologies to the Cambodian people for their genocidal rule two decades ago and asked their countrymen to forget the past. Page 4

Iraqi aircraft 'in no-fly zones'
Baghdad stepped up its defiance against the west, claiming that its own aircraft were flying in the "no-fly zones" despite US insistence that it would continue to enforce the zones. Page 4

Moscow widens $1bn bank probe
Russia's interior ministry said it was widening its investigation into alleged wrongdoing at the central bank and suggested that more than $1bn could have gone missing. Page 2

Issing dismisses euro targets
Otmar Issing, chief economist of the European Central Bank, has dismissed German government proposals for exchange rate target zones for the euro as "dangerous" and "illusory". Page 2

German call charges set to fall
German telephone users are entering the new year with the prospect of further drops in the cost of calls, thanks to a price war in Europe's biggest telecoms market. Page 2

Good news on surviving octuplets
Tests on seven surviving Texas octuplets yielded "very dramatic good news" when they showed the babies had no early signs of neurological problems.

Saudi Arabia to cut spending
Low oil revenues have forced Saudi Arabia, the world's largest oil exporter, to cut projected spending in 1999 by 12 per cent to SR165bn ($44bn) from last year's actual SR189bn. Page 4

Disasters cost 50,000 lives
Natural disasters caused 50,000 deaths and damage costing more than $90 billion in 1998, said reinsurers Munich Re MUVGn.F of Germany.

Coalition plan for Ankara
Turkish independent parliamentarian Yalim Erez said he hoped to form a coalition government next week after a month of political instability.

US home sales set for record
Sales of US existing homes rose to a near record in November, on track to shatter last year's levels, said the National Association of Realtors.

Most Chileans think Pinochet guilty
Almost two-thirds of Chileans believe that former president Augusto Pinochet is guilty of human rights abuses during his 17-year rule, a survey showed.

Change lanes
A German autobahn was showered with DM77,000 ($46,000) of small change after an accident involving a security van.

BUSINESS NEWS

Conoco to take $50m charge and cut 975 jobs

Conoco, the US oil company, became the latest casualty of depressed oil prices as it announced an after-tax charge of $50m, or 8 cents a share, against fourth quarter earnings to cut costs and jobs. The Texan group said 975 jobs would be lost. Page 11; Crude prices rebound, Page 15

Lafarge of France has won an agreement to take a majority stake in Serbia's state-owned Beocin cement plant, but diplomats said European Union sanctions against Serbia could block the proposed deal. Page 11

Scania, the Swedish heavy truck manufacturer, is expecting a sharp increase in European sales this year following increased fleet demand in France and Germany. Page 14

Record volumes of shares traded hands on the London Stock Exchange in 1998, with turnover boosted by a large rise in the value of international share trading. Page 11

Russia looked set to miss a $362m cash repayment on its private sector debt due by midnight last night, but officials said foreign creditors were unlikely to declare the country in default. Page 2; Cooling the meltdown, Page 3

Volvo, the Swedish automotive group, warned that transaction and currency charges associated with the euro could cost it up to SKr300m ($37m) a year. Page 14

Malaysia is to borrow US$1.35bn from a consortium of 12 foreign commercial banks. The five-year loans will be used to recapitalise troubled local banks and to finance infrastructure building projects. Page 4

Singer, the US maker of sewing machines, has taken the first step in a restructuring forced on it by the collapse of emerging markets. Page 12

Hong Kong property lending rose sharply last month, reflecting the launch of a number of new developments. Gross new loans rose 66.5 per cent to HK$10.3bn ($1.33bn). Page 4

Ito Yokado, one of Japan's largest retailers, has launched huge discount sales during the end-of-year shopping season in an attempt to revive consumer sentiment. Page 11; Editorial Comment, Page 9

Anglogold, the world's largest gold producer, is to use a syndicated bank loan of $350m to help finance the acquisition of the gold mining and exploration interests of Minorco, its sister company. Page 15

Forbes magazine has named Pfizer, the US drugs group, as its company of the year, saying, "The people who brought us Viagra have more blockbusters on the way".

The Senegalese government has decided to sell a 51 per cent stake in its national carrier, Air Senegal, and wants to receive bids by February 26, 1999.

Four hostages die as Yemeni forces storm captors' base

Western tourists killed in rescue attempt after abduction by tribesmen

By Robin Allen in Dubai

Three British hostages and one Australian were killed and others injured yesterday when Yemeni security forces stormed a position held by the kidnappers of 16 tourists, Robin Cook, British foreign secretary said.

The group of eight men and eight women – 12 Britons two Americans and two Australians had been taken by tribesmen on Monday near Haban, in south-central Abyan province, an area of rugged terrain and 6,000 foot high mountains.

A Yemeni official said troops had stormed the tribesmen's stronghold after reports that they had killed two of their captives. He said it was the first time hostages had been killed in the country where more than 100 foreigners, including several diplomats and oil workers, have been abducted since 1992.

Two of the kidnappers, Islamic militants demanding the release of a jailed colleague, were also injured in an operation which resulted, according to officials, in the release of the other hostages.

According to Western diplomats, the group had been travelling in five vehicles when they were abducted by tribesmen.

The tribesmen have long been at odds with the central government led by President Ali Abdullah Saleh, whom they accuse of corruption and of neglecting the basic needs of the majority of people who live in rural areas.

Yemen, with a population of 16m people in the south-west corner of the Arabian peninsula, is one of the world's poorest countries with an annual income of $500 a head.

Mr Cook said that the Foreign Office was advising that British nationals visiting the country should leave.

Abyan province is on the regular tour route for visitors going from San'a and other favoured northern Yemen destinations, to the Hadramawt in southern Yemen. Most tourists in the country, like the group kidnapped on Monday, are escorted by Yemeni tour operators with guides who come from, or are friendly with, tribesmen in areas through which they are passing.

One of the vehicles, carrying a Yemeni guide and a British tourist, escaped and alerted the authorities.

The abductions came only three weeks after gunmen took four German tourists hostage, including three women, in Marib province 170 kilometres east of San'a.

Negotiations for their release are still going on.

Monday's kidnapping was the largest single such incident in a country as rich in abductions as it is in historical sites.

The most recent tragedy is certain to damage the country's tourism industry, which last year generated $100m in badly-needed foreign exchange.

Last Saturday, disgruntled tribesmen blew up, for the 19th time since June, part of the pipeline carrying crude oil from the Marib field, operated by Yemen Hunt Oil Company in conjunction with Exxon.

The 420km pipeline has an average throughput of 145,000 barrels a day, more than one-third of the 380,000 b/d produced by foreign companies. Revenues from crude oil provide more than 80 per cent of state revenue.

Kidnapping and abductions, Page 4

Balloons outside the Paris headquarters of French bank Paribas herald the launch of Europe's single currency on January 1. Surrounding the euro are: the Irish punt, Italian lire, Finnish mark and Spanish peseta Reuters

Australia cautions against investing in UK after euro

By Gwen Robinson in Sydney and Christopher Adams in London

The Australian government has warned companies they face a "competitive disadvantage" investing in the UK because it is outside monetary union.

The warning, in a report by the Australian department of foreign affairs and trade, is the strongest sign yet of official concern among the UK's main trading partners in the lead-up to the single currency. Conversion rates for the 11 currencies joining monetary union (Emu) will be published tomorrow and the euro will be traded for the first time on world markets on Monday.

The report said companies based outside the single currency zone would face additional transaction and hedging costs related to the euro, compared with their competitors within the euro-zone.

The report is an embarrassment for the UK government, which claims inward investment will not be significantly affected by its decision to stay out of monetary union for the time being. Britain, Sweden, Denmark and Greece are the only members of the 15-nation European Union not joining the euro.

The report predicted most Australian companies in the UK would be unlikely to shift operations to continental Europe immediately because the UK was "unlikely to remain out of Emu for long".

But it voiced what many non-EU governments have said privately: that the UK's decision to stay out of the euro's launch will have a negative short-term impact on its bilateral trade and investment relations with non-EU partners.

"There is widespread agreement that countries participating in the 'first wave' of Emu might become more attractive for foreign investors, which could lead to some re-direction of FDI [foreign direct investment] flows. In particular the UK, which is a traditional recipient of FDI flows of large investor countries like the US, Canada, and Japan, might be negatively affected by this phenomenon," according to the Australian report.

The UK government is fighting to maintain influence in Europe despite not taking part in monetary union at an early stage. The report will provide ammunition for an increasingly active section of British business, which is in favour of adopting the euro as soon as possible.

The UK Department of Trade and Industry yesterday disputed the report's conclusions, saying that high levels of new investment suggested the UK's position on the euro was not a significant issue for the world's leading companies.

An official at the Confederation of British Industry said: "With the possibility of the UK joining the single currency still open in the future, our non-involvement at this stage will have minimal effect on inward investment."

The UK is by far Australia's largest EU trading partner. It receives nearly one third of Australia's exports to the EU and about 85 per cent of Australia's foreign direct investment in EU countries.

China passes law to improve stock market regulation

By James Harding in Shanghai

China took another cautious step towards becoming a modern market economy yesterday when it passed a securities law to create a broad legal framework for its growing stock markets.

The law, which has been under consideration for six years, is designed to bring some order to the many regulations, directives and policy guidelines that have accompanied the development of China's volatile young markets.

But, while the legislation reinforces penalties for abuses such as insider trading and theft of investors' funds, market analysts have noted the absence of rules to govern some of the more sophisticated matters in the financial services industry, such as derivatives and debt issuance.

Senior members of the National People's Congress, China's parliament, approved the 214-article law which includes "detailed stipulations on preventing market risk and standardising market operations to protect the interests of investors", the official Xinhua news agency reported.

The law sets out broad powers for the market regulator, stiffens the punishments for trading and issuing irregularities, stops brokerages from using customers' funds for trading on the firms' accounts, separates trading and underwriting operations and clearly divides the banking, trust and securities businesses.

Gavin Bacon, partner at the law firm Simmons & Simmons in Shanghai, said: "The law represents a platform from which the authorities can put the securities houses in order, but, as usual, it depends on how rigorously they enforce the regulations."

China's stock markets in Shanghai and Shenzhen, which have grown over the past eight years to boast more than 800 listed companies and a total market capitalisation of more than RMB2,000bn ($240bn), have tended to be speculative and unpredictable.

Some Chinese companies have shown scant regard for financial regulations. For example, Chengdu Hongguang, the television component maker, claimed to have generated substantial profits to secure a listing on the Shanghai stock exchange in 1997. The company had actually made a loss of RMB103m.

Insider trading has also been common at a number of securities brokerages.

The stock markets offered a lukewarm response to the long-awaited approval of the law. Traders generally welcomed the legislation but were concerned that certain regulations would squeeze money out of the markets in the short-term.

The draft law has been subject to several last minute changes and is expected to undergo more revisions when it goes before the State Council, China's cabinet. Ceremonial approval by the assembly of the National People's Congress will take place in March, and the law is due to take effect on July 1 next year.

WORLD MARKETS

STOCK MARKET INDICES		
New York Lunchtime		
Dow Jones Ind Av	9208.05	(+71.31)
NASDAQ Composite	2176.94	(-3.36)
Europe and Far East		
CAC40	3891.10	(+18.00)
DAX	5031.37	(-12.90)
FTSE 100	5841.5	(+74.3)
Nikkei	13845.90	(+137.94)
US Lunchtime RATES		
Federal Funds	4.625%	
3-mth Treas Bills: Yld	4.516%	
Long Bond	[illegible]	
Yield	5.150%	
OTHER RATES		
UK 3-mo Interbank	[illegible]	[illegible]
UK 10 yr Gilt	136.25	(135.867)
France: 10 yr OAT	138.82	(138.59)
Germany: 10 yr Bund	108.76	(108.47)
Japan: 10 yr JGB	99.373	(99.250)
NORTH SEA OIL (Argus)		
Brent Dated	$10.40	(10.175)

GOLD		
New York Comex		
Dec	288.1	[illegible]
London	$287.35	(287.00)
EXCHANGE RATES		
Dollar		
New York Lunchtime		
£	1.665	
DM	1.6702	
FFr	5.6005	
SFr	1.3627	
Y	115.495	
London		
£	1.6638	(1.6739)
DM	1.6722	(1.6800)
FFr	5.6077	(5.6290)
SFr	1.3631	(1.3725)
Y	115.185	(116.105)
Tokyo Close		Y 115.365
Sterling		
DM	2.8130	(2.8130)

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WORLD NEWS

Cyprus backtracks over missiles

By Andreas Hadjipapas in Nicosia

Cyprus yesterday acted to defuse an escalating dispute with Turkey over the deployment of Russian surface-to-air missiles, agreeing not to base them on the divided island and to negotiate instead to place them on the Greek island of Crete.

After meeting Costas Simitis, the Greek president, in Athens and then debating the issue for three hours with Cyprus' National Council, Glafkos Clerides, president of Cyprus, said he had taken the decision on his own. "I reached the decision not to install the missiles on Cyprus and I agreed to negotiate with the Russian government on the possibility of installing them on Crete," he said in a statement yesterday evening.

Cyprus' 1997 decision to buy $425m of S-300 missiles from Russia has led to increasingly belligerent rhetoric between Cyprus and the Turkish government, which claims the missiles would be able to threaten aircraft in Turkish airspace.

Threats by Turkey to destroy the missiles if any attempt was made to deploy them in Cyprus drew Greece – which guarantees the security of Cyprus – into the dispute, and led to strong international pressure to defuse it.

Mr Clerides said he was "not bowing to international pressure or blackmail" but believed his decision was "the best for the national interest" of Cyprus.

If placed on Crete, the missiles would no longer be able to threaten Turkish air space, removing part of the basis for the Turkish objections. But the decision nevertheless represents a climbdown by Mr Clerides and it will be highly controversial on the island.

The Cypriot president had earlier said he would cancel the missile contract only if Turkey agreed to his proposal for demilitarisation of the island or if there was progress towards a solution ending its division. Turkish troops occupied Northern Cyprus in 1974.

Yesterday Vassos Lyssarides, leader of the socialist Edek party, said he "totally disagreed" with Mr Clerides' decision and that his party would decide within hours whether to withdraw from the government.

Mr Clerides said Cyprus would now press ahead with its attempt to join the European Union.

He also referred to a recent United Nations Security Council resolution calling for reductions of troops and armaments in Cyprus and said he hoped this and commitments given by Bill Clinton, US president, and Tony Blair, the British prime minister, would bring results soon.

EXCHANGE RATES ECB'S CHIEF ECONOMIST DISMISSES PROPOSALS BY THE GERMAN FINANCE MINISTER

Issing rejects euro target zones call

By Wolfgang Münchau in Frankfurt

Otmar Issing, chief economist of the European Central Bank, has dismissed German government proposals for exchange rate target zones for the euro as "dangerous" and "illusory".

Mr Issing's comments amount to tough criticism of Oskar Lafontaine, German finance minister, who has proposed target bands for exchange rates between the euro, the dollar and the yen as a contribution to global macroeconomic stability.

The comments by Mr Issing, the only German representative on the ECB's executive board, suggest that the birth of the euro will do nothing to end policy differences over future euro exchange rate policy between the ECB and the German government.

Both Germany and France favour an explicit exchange rate policy to prevent the euro from appreciating against the US dollar, thus damaging exports. The ECB categorically rejects this approach, claiming it would undermine the bank's constitutional objective to achieve price stability by aiming for a second, possibly conflicting, target.

In an interview published today with Stern, the weekly German magazine, Mr Issing says international policy co-ordination should be limited to a "lively exchange of views" among the central banks. "It would be something completely different to co-ordinate monetary policy in a kind of 'world policy'. I consider such an attempt not only illusory, but also dangerous," he says.

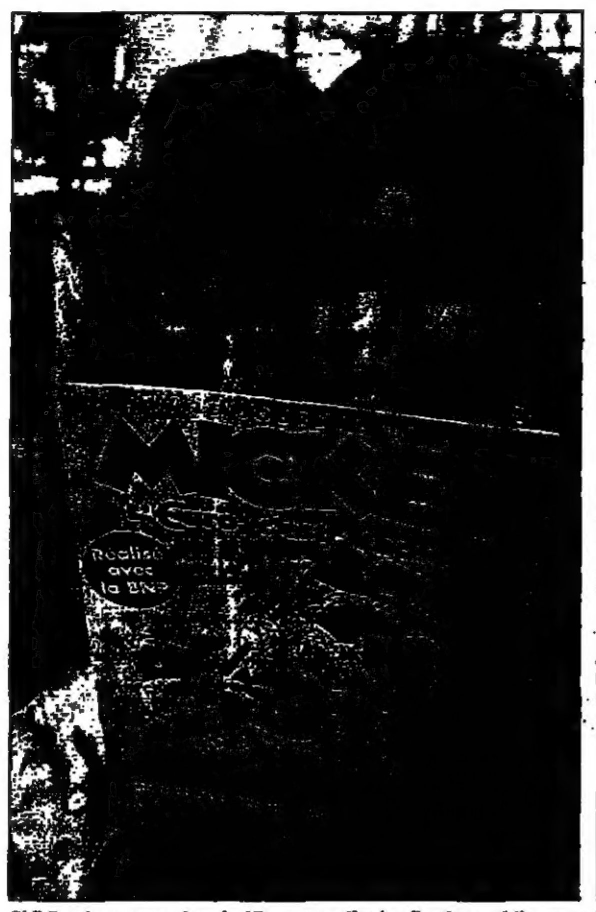
Mr Issing adds that the US Federal Reserve also opposes such a form of policy co-ordination and would "always put American interests first in the end".

Exchange rate target zones usually involve the fixing of a central parity between two or more currencies combined with an agreed fluctuation margin. But there could be less formal arrangements, under which central banks intervene to counteract a strong appreciation or depreciation of the exchange rate, but without formal bands or ceilings.

The Maastricht treaty, which contains the legal blueprint for economic and monetary union, leaves national governments in charge of deciding whether to adopt an exchange rate policy for the euro. But the ECB would have to be consulted in this case.

The German government has recently toned down its rhetoric over target zones, after the US administration made clear that it strongly opposed the idea.

Mr Issing said the success of US monetary policy during the 1990s was largely the result of structural economic reforms.



Child's play: youngsters in Nice grasp the implications of the euro from a brochure edited by Banque National de Paris which uses Walt Disney characters to explain the new currency to children AP

Securities to 'raise visibility'

By Peter Norman in Brussels

The European Commission aims to raise the visibility of the euro among international investors with the launch of a euro-denominated medium-term note programme next Tuesday, one day after trading in the new single currency begins.

Yves-Thibault de Silguy, commissioner for monetary affairs, will sign a prospectus for the issue of up to 2bn euro of notes with maturities ranging from three months to 30 years, as well as an agreement with an international group of financial institutions to place the securities with investors.

According to Commission officials, the programme will renew and increase an existing note programme of up to Ecu1bn ($1.1bn), which was launched in 1994 and has so far raised Ecu790m for the European Union.

The notes will in future be issued on behalf of the European Community as the legal representative of the EU and Euratom, the European Atomic Energy Community.

The funds will mainly finance projects in third countries, including nuclear safety projects in the republics of the former Soviet Union.

The Commission has sought to make the note programme as flexible as possible, leaving the amounts and financial terms of the various tranches to be determined in the light of market conditions at the time of issue.

The banks and financial institutions involved with the issue include Barclays of the UK, the London-based operations of Deutsche Bank, Banca Commerciale Italiana, Paribas of France, ABN-Amro of the Netherlands, Merrill Lynch, Salomon Brothers and Goldman Sachs of the US.

● The move to the European single currency will see no relaxation of Belgium's policy of reducing its public debt as a percentage of gross domestic product, Elio di Rupo, economics minister, pledged yesterday.

Claiming that the country was now in a "virtuous circle" of debt reduction, he said Belgium could bring its debt-to-GDP ratio down to the 60 per cent level specified in the Maastricht treaty in 10 to 15 years.

The government expects the debt-to-GDP ratio will drop to 115 per cent next year following a steady fall from the 1993 record high of 135 per cent.

The minister said Belgium intended to maintain an annual primary budget surplus of about 6 per cent to reduce its public debt.

Tourists set to head for central banks

By Peter Wise in Lisbon and Elizabeth Robinson in London

Should travellers prove willing to go to any lengths to find the cheapest rate to exchange currencies inside the euro-zone after the launch of the single currency on Friday, then the august corridors of Europe's central banks will soon echo to the chatter of thousands of tourists.

In the 11 countries forming the euro-zone, each central bank will be obliged to exchange notes from any of the other 10 countries into the local currency without charging a fee or commission. They will use the conversion rates between the 11 currencies and the euro that are to be permanently fixed tomorrow.

"The least expensive means of exchange within the euro-zone will be to take your local currency with you and go to the nearest branch of the central bank in the country you are visiting," a Portuguese central bank official said yesterday.

The euro-zone currencies will remain in use for the next three years, until they are replaced by euro notes and coins on January 1 2002.

This unexpected and humble new role for central banks is just one consequence of economic and monetary union for the currency exchange business, one of the areas where ordinary citizens will first experience the practical effects of the transition to the euro.

In practice, however, tourists are unlikely to make use of free exchange at central banks because they lack the facilities to conduct retail exchange businesses.

Instead, central banks have reached agreements with commercial banks to exchange other euro currencies into local currency for a small transaction fee. In Portugal, for example, this commission has been fixed at a maximum of 0.5 per cent.

The advent of the single currency, however, will be bad news for Europe's *bureaux de change*.

The practice of charging different rates for buying or selling currencies, from which the *bureaux de change* have traditionally made the bulk of their margins, will disappear at a stroke next weekend.

In Lisbon yesterday, banks and *bureaux de change* were charging about Es258 for one Irish pound, for example. But if you were exchanging an Irish punt for escudos, you would have received only Es253. From Friday, there will be just one exchange rate.

"We expect a 30 per cent loss in revenue as a result of the single currency," said Silvino Silva, a Lisbon branch manager with Cotacâmbios, a small company which runs 10 exchange bureaux in Portugal. Mr Silva indicated, however, that the bureaux will try to make up for those losses by charging higher commissions.

João Capucho, a banking sector analyst with Portugal's Banco Finantia, believes the euro means the end of the currency exchange business in Europe on any significant scale.

"We are moving into a world dominated by just three currencies, the euro, the dollar and the yen, in which more than 80 per cent of global output will be denominated. People will need to exchange currencies less and less."

As for the euro itself, it will for now be exchanged only in the form of travellers' cheques or by credit card companies.

Carlson Wagonlit Travel, the business travel agent, estimates that business travellers to the euro-zone will save an average $13.15 per visit by not having to exchange currencies.

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MOSCOW INVESTIGATION MINISTRY SUGGESTS $1BN MAY BE MISSING AT CENTRAL BANK

Russian funds probe widens

By John Thornhill in Moscow

Russia's interior ministry said yesterday it was widening its investigation into alleged wrongdoing at the central bank and suggested more than $1bn could have gone missing.

Ministry officials said they were trawling through central bank records from the past six years and were also examining finance ministry accounts.

The investigation now includes experts from the prosecutor general's office as well as the FSB, successor to the KGB.

Sergei Stepashin, interior minister, said: "We have been picking through the central bank's activities since 1992. We are talking about enormous losses."

The interior ministry launched its investigation into misuse of funds at the central bank soon after Russia's financial crisis broke on August 17, when the government devalued the rouble and defaulted on its domestic debt.

The Auditing Chamber, the government's financial watchdog, questioned how the central bank had used the $4.8bn loan it received from the International Monetary Fund in July as part of a last-ditch attempt to save the rouble.

There were also allegations that the central bank had given soft credits to several politically influential commercial banks, which were facing big repayments on hard currency loans.

Sergei Dubinin, head of the central bank at the time of the August crisis, yesterday fiercely rejected suggestions he had been involved in any wrongdoing. He added that it was difficult to fight with "phantoms" who aired vague allegations rather than specific charges.

Mr Dubinin said the bank had been subject to emotional attacks, tarnishing its reputation and threatening its independence. "If we want to have a weak currency, we should destroy the independent central bank, as has been done in his own time by the president of Belarus," he said.

Other former government officials have suggested the investigation is politically motivated and is designed to blacken names, not to achieve prosecutions. Previous audits of central bank and finance ministry activities have not uncovered evidence of fraud.

The central bank has always said that it spent the IMF money on the purposes for which it was intended. Up to $3.8bn was spent on the failed defence of the rouble, while the remaining $1bn was used to retire a slab of government debt.

But central bank staff have at times come under enormous pressure from Russia's aggressive financial institutions to grant them special favours.

Unidentified gunmen have twice fired on Mr Dubinin's apartment.

Internet starts to click with shoppers

By Tracy Corrigan in New York

For weeks, long lines of patient shoppers have huddled outside FAO Schwarz, the top New York toy store featured in the movie *Big*. For some American families it is an annual pilgrimage, for others part of a routine seasonal shopping trip – but it is also a testament to the continuing draw of the Christmas shopping experience.

But while some parents wonder, as they shepherd their cold, whingeing children along Fifth Avenue, whether there is an easier way, others have recently discovered that there is. Christmas shopping on the internet has more than tripled since last year, according to a survey by Boston Consulting Group, the management consultancy, and shop.org, a trade association for internet retailers.

The data for the period from November 23 to December 30 show a 230 per cent rise in Christmas shopping on the internet, with an average order size of $55, up 6 per cent over last year.

This surge in Christmas shopping exceeds the 200 per cent growth projected in online retailing revenues to $300bn for 1998 – a total which still represents less than one per cent of retail sales.

David Pecaut, head of BCG's global e-commerce practice, describes the Christmas internet shopping surge as "a coming of age". Last year, he says, most people who shopped on the web viewed it as an experiment.

Scott Appleby, e-commerce analyst at ABN Amro, was not surprised by the surge: "Two or three times last year's levels was the minimum" he expected, he noted. But like others he believes that "it is a turning point".

A number of factors have contributed to a psychological shift in the willingness of shoppers to use the internet.

Sites in certain categories such as books now offer greater selection than shops. The biggest Barnes & Noble bookstores stock 180,000 titles, compared with about 3m on barnesandnoble.com or amazon.com. Mr Pecaut estimates that 8 per cent of US books are now bought on the internet.

Worries about credit card fraud seems to have faded, partly as a result of better security on the internet but also because consumers have realised that they are probably running greater risks by handing over their credit cards in restaurants or stating credit card numbers over the phone.

But the main reason seems to be ease and convenience – amazon.com, for example, offers discount prices on books which can be ordered, gift-wrapped and shipped with a few strokes of the mouse.

Since ease is the internet's selling point, if a gift then fails to arrive on time, the consumer's ire is likely to be more pronounced than if a shop is out of stock.

There have been delivery failures this Christmas but analysts believe these are not widespread. "I don't think it's a reflection of a breakdown of the system," said Mr Appleby. Furthermore, many sites have managed expectations by posting latest order dates for Christmas gifts.

Mr Pecaut said that in addition to delivery problems, some sites had become overloaded, but noted that there is "not an overwhelming number of examples".

As compelling as the data is the anecdotal evidence that internet shopping has arrived.

It has recently become a hot topic of conversation even among Americans who are not on the technological cutting edge.

At the recent seasonal round of parties, around Christmas and Chanukkah this year, New York parents, as well as discussing schools and property prices like their peers in London, could be heard telling each other to sign on to e-toys rather than face another trudge around ToysRUs.

NEWS DIGEST

DEFAULT DECLARATION 'UNLIKELY'

Moscow likely to miss cash repayment on debt

Russia yesterday looked set to miss a $362m cash repayment on its private sector debt due by midnight but finance officials said foreign creditors were unlikely to declare the country in default.

Officials said that almost three-quarters of the holders of the Soviet-era "London Club" debt had accepted the government's restructuring proposals by yesterday's deadline – even though this fell short of the 95 per cent level technically needed for approval.

Vneshekonombank, the government's agent, is now likely to issue additional Interest Arrear Notes (IANs) in place of the cash repayment. Foreign investors fear that such a move will further depress the price of existing IANs but appear reluctant to start a complicated legal battle against the Russian government by declaring a default. Finance officials said they would continue to talk to London Club creditors about an orderly, longer-term restructuring although this process would be complicated by the diffuse ownership of the debt, which has already been restructured once before.

The government forecasts it will be able to service only $9.5bn of the $17.5bn of foreign debt repayments due next year. **John Thornhill, Moscow**

FRENCH TREASURY

End of paper bonds

The French treasury is to stop offering government debt in the form of bearer bonds on paper certificates from next week, due to the declining popularity of these instruments and their incompatibility with European economic and monetary union.

Bond certificates, which were offered to individual investors, associations and local authorities, accounted for only 0.3 per cent of outstanding French debt at the end of last year. The vast majority of bonds is held in electronic form and traded by computer.

When French debt is redenominated over the next weekend, each bond will be broken down into a round number of euro-denominated bonds. This will take place automatically for securities registered in electronic clearing systems, while holders of bond certificates will have to bring them to a treasury office for exchange.
Samer Iskandar, Paris

US ECONOMY

Consumer confidence dips

The US consumer confidence index fell to 126.1 in December from a revised 126.4 in November, the Conference Board said. The Board's expectations index fell to 97.8 in December from a revised 99.5 in November, and the board said that the slight dip in was mainly due to a decline in optimism about future spending power.

"While this month's survey excludes recent political and military events, over the past 30 years consumers have weathered a multitude of similar situations quite remarkably," said Lynn Franco, associate director of the Conference Board's Consumer Research Centre. Overall consumer sentiment held at "decent" levels, said William Sullivan, a senior vice-president and director of money market research at Morgan Stanley Dean Witter.

● Sales of existing homes rose to a near-record level in November as mild weather, strong consumer confidence and low mortgage rates boosted turnover, the National Association of Realtors said yesterday. Home resales rose 2.7 per cent in November to a seasonally adjusted annual rate of 4.90m units. The rate was just short of the record sales pace of 4.91m units recorded in July.
Agencies, Washington

US-MEXICAN TRADE

Border companies criticised

International companies running *maquiladora* factories, which operate along Mexico's border with the US to take advantage of free trade accords between the two countries, are flouting Mexican law by forcing women to undergo pregnancy tests as a condition of employment, Human Rights Watch said yesterday.

Women found to be pregnant were refused employment, the New York-based human rights group said in a report entitled "A Job or Your Rights: Continued Sex Discrimination in Mexico's Maquiladora Sector". Among the companies carrying out the tests were Landis & Staefa, Samsung Group, Matsushita Electric Corp, Sunbeam-Oster, Sanyo, Thomson Corporate Worldwide, Siemens, Lear, Johnson Controls, Tyco International and Pacific Dunlop, the report said.

The group criticised the legal recourses available to employees and called on the Mexican government to do more to protect its workers. "This is flagrant sex discrimination that these corporations would never dare to defend or practise in their own countries," said Regan Ralph, executive director of Human Rights Watch's women's rights division. **Andrew Downie, Mexico City**

ANGOLA CRASH

UN locates aircraft

The United Nations has located the C-130 cargo aircraft which crashed in Angola on Saturday, with 10 UN observers on board and said it had "clear indications" that it was largely intact.

Issa Diallo, head of the UN observer mission in Angola said there was "still a chance to save people" and that hopes had been raised by the reception of a morse code signal from the aircraft. It is not clear whether the message was sent automatically or manually. **Mark Turner, Nairobi**

BASQUE POLITICS

Step towards home rule

In the aftermath of a three-month-long ceasefire by the outlawed separatist organisation Eta, the regional parliament of Spain's Basque country was yesterday poised to elect its first wholly nationalist government thanks to the support of Eta's political allies. The new executive, expected to receive a majority backing from the 75-member Basque legislature today, marks a watershed in the region's progress towards home rule that followed the restoration of democracy in Spain in the mid 1970's.

Juan José Ibarretxe, candidate of the mainstream Basque Nationalist party (PNV) for the post of chief minister, was endorsed by Euskal Herritarrock (EH), the Basque Citizens party, on the first day of debate. EH is a coalition orchestrated by Eta's political wing, which emerged as the third largest political force in elections to the local legislature held in October.

Euskal Herritarrock said it would back Mr Ibarretxe's minority government in order to bolster the sovereignty of the Basque country. **Tom Burns, Madrid**

1998: ECONOMIC CRISIS AVERTED

Cooling the global markets' meltdown

In the first of two reports, **Gerard Baker** reveals how world leaders cushioned the shock of Russia's financial collapse

Monday, August 17 was billed *in advance* as a day of truly historic significance in Washington. Well before dawn, the television cameras and arc lights had begun sprouting on the front lawn of the White House to capture the few visual highlights of what promised to be history in the making.

Inside, President Bill Clinton was preparing to testify on closed circuit television before a grand jury over allegations he lied and obstructed justice in the *Monica Lewinsky case*. *The* drama presaged the first presidential impeachment this century and the eyes of the world were on the executive mansion throughout the stormy summer's day.

But *across* the street, behind the soaring porticos of the US Treasury building, a different sort of drama was unfolding, one that might prove even more momentous than the potential impeachment of a president. The Russian government had bowed under the weight of international *financial* pressure and allowed the rouble to float, at the same time restructuring (a euphemism for defaulting on) much of its foreign private debt.

As President Clinton started his final preparations to save his presidency, officials began grappling with *their* initial *response* to what they would later describe as the most serious financial crisis the world had faced in 50 years.

Over the next few weeks world markets plunged into a frightening downward spiral. A group of senior officials at the Treasury, the Federal Reserve and the White House put together a crisis response designed to *forestall a collapse*. These included Robert Rubin, the Treasury secretary, Lawrence Summers, his deputy, Gene Sperling, chairman of President Clinton's national economic council, Alan Greenspan, the Federal Reserve chairman, and William McDonough, the *president* of the New York Fed.

According to Mr Rubin, the atmosphere of the discussions throughout was intense but never panicky.

"I don't think you gain *very much by sitting* there, wringing your hands and trying to figure out how awful it all is. What you need to do... is to try to get the things done that will get the best response in the situ*ation*."

It is clearly too early to say their actions, together with those of other countries' policymakers, stopped the slide. But, several months on, as a degree of *stability* has been restored, the thinking behind the decision making is beginning to emerge in more detail. Based on interviews with several of the leading participants, what follows is an account of some of that thinking.

As the world began to digest the Russian collapse *in the week after the devalu*ation, the scale of the global crisis it precipitated became clearer. Emerging markets imploded. But, more vexing for US policymakers, investors took flight from all but the safest American securities. Stock prices fell 7 per cent in the next two weeks; corporate bond *issuance* began to dry up.

Officials had long feared that a stock market correction was coming. As Mr Greenspan had said the previous month: "We know... from history... that a correction is likely. What we cannot say is when." A global market collapse would be potentially devastating. The robust US economic expan*sion might* be *brought to* a standstill, knocking away the only prop to global growth.

It was obvious at the Treasury and elsewhere that the crisis required something more comprehensive than the approach the administra*tion had taken to the unfold*ing Asian turmoil of the last year.

The Treasury, egged on by an increasingly concerned White House, sought to coordinate an international *response that would address* market concerns. But officials knew that their efforts would be futile without action by the Fed – a signal that it was ready to cut interest rates and go *for growth to keep the US and* the world economy afloat.

The Treasury is highly sensitive to any suggestion that it ever leans on the central bank to change policy. And the relationship between Mr Rubin and Mr Greenspan is said by those close to them to be so good that there has been almost no tension. In this case it was immediately clear the two men were thinking along the same lines.

Mr Greenspan, who in July had been warning of *inflationary pressures in the* US economy, quickly saw the need for a rapid monetary response to the developing crisis.

In fact what emerged in the next two weeks was a twin-track US approach to the crisis. The Fed under Mr Greenspan would signal it *was ready to do what* was necessary to keep the US expansion on track, while the Treasury would try to get an international commitment from the other Group of Seven leading industrialised countries that they too would promote growth with a new urgency.

Neither track was without obstacles. Mr Greenspan had to move cautiously. He needed to consult the other members of the central bank's policy-making open market committee. Several members were sceptical of what they saw as the Fed putting international financial market concerns above the demands of the domestic *economy*. In *spite* of all the fears, US growth was still robust, money supply was expanding rapidly and inflation would surely follow.

One member of the committee, Jerry Jordan, the *president of the Cleveland* Fed, was especially critical – he even proposed *raising* interest rates in August to head off inflation.

But in a series of crucial discussions over the next month, *the Fed's* policymakers eventually coalesced around a strategy that produced a sharp easing of policy – three interest rate cuts in seven weeks.

Jackson Hole, in the Grand Teton Mountains of Wyoming, is surely one of the most invigorating spots from which to view a world in crisis. At the end of August, Fed and other central bank officials and private sector economists gathered for the *annual policy symposium* there organised by the Kansas City Fed. While the ostensible point of the gathering was to discuss the innocuous-sounding subject of income inequality, the global market collapse was the subject of most private conversations.

*The day before the meet*ing, August 27, New York stock prices fell a further 4 per cent, bringing their average cumulative decline in the last two weeks to more than 8 per cent. Bond prices were still in decline.

In a succession of chats in his rooms at the rustic Jackson *Lake Lodge*, Mr Greenspan sounded out all the members of the FOMC present. In discreet telephone calls, sometimes between strokes on the golf course, he kept in touch with Mr Rubin and others in Washington and New York.

The committee members agreed that Mr Greenspan could give his first clear public signal that the Fed was ready to cut interest rates. A few days later, on September 4, the chairman flew to San Francisco for a long-scheduled speech. He departed *from his published theme in* the first few moments to send the message.

"It is just not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress," he said. The Fed had changed its *view about the risks to the* US economy since the summer, he added. Now it needed "to consider carefully the potential ramifications of ongoing developments".

The effect was instant. Markets surged in the next few days as expectations of US rate cuts took hold. *Hopes of an early return to* stability grew.

At the Treasury, meanwhile, officials were pursuing their part of the strategy – co-ordinating an international response. This was tricky. The message world leaders sent had to be credible, but also realistic.

Brazil was in negotiations with the IMF and nothing the global leaders said could be allowed to undermine those difficult discussions.

There were also divisions within the G7 about how much should be done to promote growth.

In the UK, which was chairing the G7, someone had hit on the idea of holding a summit meeting to demonstrate policymakers' resolve.

At the White House, President Clinton, who by now was hosting almost daily discussions with advisers on the crisis, was also thinking about some kind of grand gesture. But what? In the coming weeks he would speak frequently with Tony Blair, the British prime minister.

US Treasury officials were strongly against the idea of an *emergency meeting of G7* leaders. It might raise unrealistic expectations of what could be achieved, and worse, might even result in public differences among the leading powers.

But with the crisis deepening and the Fed chairman already embarked on a course that seemed to promise interest rate cuts, surely it ought to be possible to produce a global commitment – in the form of a public statement – to bolster growth?

There were objections. With European monetary union approaching, the Germans were reluctant to give markets any sign they would cut interest rates to stimulate growth. They felt, in any case, that did not need stimulating. The Japanese, with interest rates already at rock bottom, were not convinced they could do much more.

In the end, the statement, issued on September 14 by G7 finance ministers and central banks was robust enough: "The balance of risks in the world economy [has] shifted" away from inflation – towards much *slower growth, it said.*

"The purpose was to try to affect the mindset of policymaking all through the industrial countries. Getting that [mindset] memorialised in a statement was a way of further promoting it – and I think that affected the atmosphere going forward," says Mr Rubin.

To heighten the drama, Mr Clinton – days after the publication of the report recommending his impeachment in Washington – made a landmark speech in New York on the threat to the global economy, and the longer-term need for global financial reform.

The strategy then, was in place – the Fed was signalling interest rate cuts in the offing. The rest of the world had signed on to a promise to promote growth; markets were showing early signs of stabilising.

The reaction, as it had been to Mr Greenspan's September 4 speech, was encouraging. Asian European and US markets recovered.

But at the Fed and the Treasury officials suspected that the worst was far from over. In New York, rumours *swirled that a leading finan*cial institution was on the brink of collapse.

Tomorrow: A hedge fund collapses, financial markets "seize up"; the Fed to the rescue again.

BAGHDAD DEFIANCE SAUDI ARABIA ATTACKED OVER POSTPONED ARAB LEAGUE FOREIGN MINISTERS' MEETING

Iraqi aircraft 'flying in no-fly zone'

By Roula Khalaf in Baghdad

Iraq yesterday attacked leading Arab governments, accusing Saudi Arabia of forcing the Arab League to postpone a meeting of foreign ministers and Egyptian President Hosni Mubarak of following the US policy of "double standards" in its dealings with Iraq.

Baghdad also stepped up its defiance against the west, claiming that its own aircraft were flying in the northern and southern "no-fly zones", despite US insistence yesterday that it would continue to enforce the zones.

Taha Yassin Ramadan, Iraqi vice-president, said Iraqi aircraft were "flying in a normal manner in Iraqi airspace," only a day after a clash in northern Iraq resulted in US aircraft firing on an anti-aircraft battery and killing four Iraqi soldiers.

Mr Ramadan pledged on Sunday that Iraq would not recognise the no-fly zones set up by the 1990-1991 Gulf war allies to protect the Kurds in the north and the Shias in the south.

He told AP television yesterday that the exclusion zones existed "only in the sick imagination of the British and American administration".

Mr Ramadan also reiterated a Baghdad claim that Iraq had shot down a US aircraft on Monday, though the US said all its aircraft had returned safely.

Iraq's wrath yesterday was directed mainly at Arab leaders. A foreign ministry official condemned the Arab League's decision to put off a meeting on Iraq planned for today until January 24 as running counter to Arab League rules. The official insisted that the decision to delay the meeting came after a secret visit to Cairo by the Saudi foreign minister.

Iraq repeated a claim that it had shot down a US fighter aircraft on Monday

The Arab League meeting is important to Iraq. Baghdad has been trying to to capitalise on the expressions of support it received in the Arab world during the four-day US and British military strikes earlier this month and it has attempted to put pressure on Arab leaders to soften their policies towards it.

"The meeting would have told the world and the Iraqi population that Iraq's isolation was over," said a senior Iraqi diplomat.

"The problem is that, by January 24, we don't know what the diplomatic situation will be, whether the momentum will be gone or diluted, and whether all of the 17 countries which had said they would attend the meeting would still be there."

Anger at Arab governments was also expressed yesterday by Tariq Aziz, Iraq's deputy prime minister.

He wrote a rare editorial in Al Jumhuriya, a government mouthpiece, strongly criticising recent statements by the Egyptian president blaming the Iraqi leadership for the US-led air strikes.

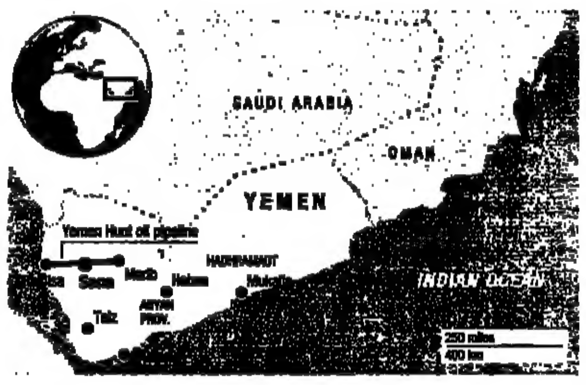
"Mr Mubarak, the leader of the biggest Arab nation, did... not say what many rulers, politicians and writers – some in the west – said and that is that the [US] aggression did not have any international legal basis and contradicted United Nations Security Council resolutions and threatened the role and position of the UN," said Mr Aziz. "Mr Mubarak is exercising the same double standards as the US."

Taha Yassin Ramadan: aircraft are 'flying in a normal manner in Iraqi airspace' AP

YEMEN KIDNAPPINGS FOUR TOURISTS KILLED AS GOVERNMENT FORCES STORM STRONGHOLD

Unexpected tragedy in tribal struggle

By Robin Allen



Kidnapping, abductions, and blood feuds are part of the ancient tribal history of Yemen – a land whose central government in Sana'a has never been able to enforce its authority for long in the remote mountainous areas which comprise some 80 per cent of the country.

Despite the ancient tribal adage, "myself against my brother; my brother and I against my father; my family against my uncles; my tribe against the outsider", foreigners have rarely been harmed.

Even when they have it was largely in a bloody colonial war and more often in urban areas such as Aden and parts of the wild hinterland of southern Yemen. Yemenis fought the British in the years leading up to the 1967 withdrawal.

Yesterday's tragedy, which ended in the death of four western tourists, occurred when government security forces stormed the kidnappers of 15 of a group of 16 tourists. The deaths will be seen by many tribesmen as a denial of Yemeni tribal hospitality to foreigners and will exacerbate the bad blood between the central government and rural tribesmen angry at perceived government neglect and corruption.

Yemen was united in name for a second time after a bitter civil war in 1994, but remains one of the poorest states in the Arab world. In the northern part in particular it is one of the most over-populated in proportion to what the land can support.

It is also one country where a man is not considered to be worth his salt unless he both chews *qat*, a mild narcotic leaf from a plant looking like a privet hedge, and carries a Kalashnikov sub-machine gun. The number of Kalashnikovs has by general consent outnumbered Yemen's 18m population three-to-one.

Monday's abduction of 16 western tourists, if confirmed to have been by Islamic militants, also represents the first time that tourists have been kidnapped for political reasons rather than economic gain.

The first kidnapping of a foreigner by armed tribesmen took place in 1991. Since then the numbers have grown to 15 in 1996 and more than 20 in 1997. By this year the total number will have risen to about 100.

In all but the two most recent cases this month, the fiercely independent tribesmen had demanded proper water and basic facilities such as graded roads and a modicum of sanitation and education facilities.

When tourists have not been available for kidnapping, the tribesmen have not hesitated to turn their weapons on government troops, most of whom come from the same tribal confederation as president Ali Abdullah Saleh.

Last June and July more than 250 people were killed in clashes throughout north and south Yemen between local tribes and central government forces.

Attacks on oil pipelines, operated by Hunt Oil in the north and Canadian Occidental Oil company in the south, have been another way to try to get money out of the state.

According to Abdul-Aziz Al-Saqqaf, editor-in-chief of Yemen Times, "snatching foreigners has done the trick to get attention to win their fair share of development projects. But the state remains oblivious to the needs of the people."

The deaths will be seen as a denial of Yemeni tribal hospitality

Widespread disaffection has been exacerbated by plunging oil prices and the worsening economy. In an effort to reduce the budget deficit, likely to reach 10 per cent of gross domestic product this year, the government, pushed by the International Monetary Fund, has cut subsidies on basic foodstuffs. Prices of petrol, wheat, flour and cooking oil have risen sharply.

Khmer Rouge chiefs apologise

By Ted Bardacke in Bangkok

Two top Khmer Rouge leaders, their movement now defunct, yesterday offered the first apologies ever to the Cambodian people for their genocidal rule two decades ago and then asked their countrymen to "forget the past".

Although few Cambodians are likely to forget the four-year killing spree in which as many as 2m people – one-fifth of the country's population – died, the prime minister, Hun Sen, has for the moment ruled out a trial of the two former Khmer Rouge leaders, who surrendered on Christmas Day.

Instead, Hun Sen greeted the two – a former prime minister, Khieu Samphan and a top ideologue, Nuon Chea – with hearty embraces as they arrived in Phnom Penh, the capital which they ordered evacuated in 1975.

Khieu Samphan said he was "sorry, very sorry" for the deaths under the regime directed by the late Pol Pot. "We would like to apologise and ask our compatriots to forget the past so our nation can concentrate on the future. Let bygones be bygones."

Nuon Chea, asked who was to blame for the massacre of Cambodians under Khmer Rouge rule, said: "Let's consider that an old issue. I cannot clarify that."

Khieu Samphan said he had received assurances from Hun Sen that they would not be put on trial, particularly an international one currently being considered by the United Nations.

"Please let the Cambodian people resolve this problem," he said. "As you know, Hun Sen has warmly welcomed us. If we have to say who was wrong and who was right, etc., etc., we cannot have national reconciliation. We cannot put an end to the war."

The Khmer Rouge were destroyed as a fighting force when their stronghold of Anlong Veng fell to government forces in May.

Amnesty International yesterday condemned the Cambodian government's moves to allow the former Khmer Rouge leaders to escape justice over the reign of terror.

"It is a tragedy for Cambodia that, just as the international community is tackling the issue of impunity for gross violators by establishing an international criminal court, the authorities should be institutionalising impunity for the terrible crimes of the recent past," the London-based human rights watchdog said. "Bygones are never bygones until the truth has been told."

Malaysia to borrow from consortium of foreign banks

By T.J. Tan in Kuala Lumpur

Malaysia is borrowing US$1.35bn from a consortium of 12 foreign commercial banks operating in the country, Mustapa Mohamed, the second finance minister, said yesterday.

The five-year loans would be used to recapitalise troubled local banks and to finance infrastructure building projects.

The 12 banks include Citibank and Chase Manhattan of the US, Germany's Deutsche Bank, Bank of Tokyo, Standard Chartered of the UK, and United Overseas Bank and Overseas Union Bank of Singapore. Of the 38 commercial banks in Malaysia, 16 are foreign banks.

Malaysia will pay interest at 3 percentage points above London interbank offered rates for the bulk of the funds. Some US$100m of the loans will be denominated in yen and will be similarly priced above Tokyo interbank offered rates.

Effectively Malaysia will be paying about 8 per cent interest for the money. Were it to borrow on international markets, some analysts believe Malaysia might have to pay almost double that.

Last autumn, Malaysia imposed capital controls, effectively cutting itself off from global financial markets. This allowed the authorities to lower local interest rates without hurting the exchange rate, which had earlier been targeted by speculators. This relative stability allowed the authorities to recapitalise the banking sector, whose problems lie at the heart of Malaysia's economic woes.

Both Moody's Investors Service and Standard and Poor's have downgraded Malaysia's ratings to just above junk bond status, although with a debt-service ratio of about 15 per cent its ability to repay is regarded by bankers as adequate.

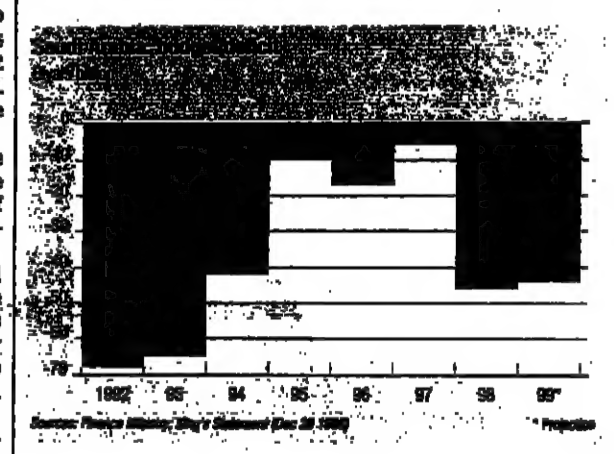
According to Mr Mustapa, the terms of the loan have an implied "AA" rating, indicating the banks' confidence in Malaysia. "It proves our point that Malaysia has been grossly underrated, deliberately perhaps," he said.

There were no indications that the banks would be given concessions on such long-standing complaints as restrictions on the opening of new branches, which have severely limited their ability to increase deposits.

Malaysia has been borrowing heavily to restore liquidity to the financial system.

Its borrowings have included US$500m from the Asian Development Bank, US$300m from the World Bank and Y74bn (US$638m) in commercial loans from Japan's Nomura Securities and Sumitomo Bank in a deal largely backed by the Japanese government. Locally, Malaysia has raised M$8bn (US$2.1bn) through the issue of government bonds.

The country is seeking a further US$2.4bn from the World Bank and US$5bn from Japan's Miyazawa Plan, designed to assist Asian economies in trouble.



Oil price decline forces Saudis to cut spending

By Robin Allen in Dubai

Low oil revenues have forced Saudi Arabia, the world's largest oil exporter, to cut projected spending in 1999 by 12 per cent to SR165bn ($44bn) from last year's actual expenditure of SR189bn.

According to official statements made after Monday's cabinet meeting chaired by King Fahd, head of state and prime minister, total 1999 revenues are estimated at SR121bn, the lowest this decade.

Some economists reckon even this low level, which suggests a projected price of $13 per barrel for the average mix of Saudi crudes, is too optimistic. They point out that Saudi Arabia earns $1.50-$2.00 less than North Sea Brent, which hit $9.17 earlier this month and which has averaged $13 per barrel throughout the year.

According to official Saudi estimates, this year's actual fiscal deficit soared to SR46bn, 9 per cent of gross domestic product, compared with the SR18bn projected last January. Next year's fiscal deficit would be met by domestic borrowing.

US government figures suggest nominal Saudi GDP will have declined by nearly 13 per cent this year, with per capita income falling to $6,100 from $7,200 last year, lower than that of Latvia.

Crown Prince Abdullah, who has been running the day-to-day affairs of the government for most of this year, has warned Saudis that, with the end of the days of high oil revenues, they must learn to live on less.

His statements presaged the cuts in state spending in this year's budget and further reductions in subsidies. But economists say neither will come in time for the government to meet its stated goal of balancing the budget by 2000.

While 1999 allocations for education, at SR42.9bn, health and social services, at SR18.7bn, and municipality services at SR6.6bn, are largely unaffected, capital spending, which takes up only 15 per cent of the total, has been cut still further.

Infrastructure spending has been cut by 15 per cent and transport and communications by more than 50 per cent, while estimates for defence spending suggest cuts on capital equipment and current maintenance will exceed 25 per cent.

According to Fuad al-Farsi, information minister, the king suggested a "continued good performance" by the private sector had offset public sector problems.

The king's instructions, according to Mr Al-Farsi, were to "curb spending, achieve a fiscal balance, and avoid borrowing 'except in very tight situations'", a strategy Saudi bankers say is "an object exercise in accentuating the positive and minimising the negative".

Bankers said it was becoming harder each year for the government to continue financing its deficit by domestic borrowing. Even Hamad al-Sayari, governor of the Saudi Arabian Monetary Agency (SAMA), the central bank, warned last week that "continued domestic borrowing lessens resources available to the private sector".

Only a serious effort, bankers suggest, to restructure loss-making state enterprises such as the power companies and Saudi Arabian Airlines, as well as to cut state subsidies further, will enable the government to keep within its projected deficit for 1999.

Property lending increases sharply

By Louise Lucas in Hong Kong

Property lending in Hong Kong rose sharply last month, largely reflecting the onslaught of new development launches that followed a small pick-up in prices in October and November.

Official figures released yesterday show the amount of gross new loans made last month surged 60.5 per cent to HK$10.3bn (US$1.33bn) from HK$6.4bn (US$826m) in October.

The growth was helped by lower lending rates, with 58 per cent of the new loans granted at the best lending rate plus 0.5 per cent or below, compared with 49.6 per cent of new loans in October. Analysts reckon December could also be stronger, but do not view the figures as heralding a turnaround for the beleaguered sector.

Y.K. Choi, acting deputy chief executive of the Hong Kong Monetary Authority, the territory's *de facto* central bank, said: "In view of improved market conditions, we expect new mortgage lending to continue to grow in December."

The rise in transactions on property, one of the pillars of Hong Kong's economy, offered only a small glimmer of optimism against an overall bleak economic outlook. The government said yesterday third-quarter gross domestic product shrank by 7.1 per cent.

Hong Kong's tycoons upset by growing 'politicisation'

Tensions between populist politics and business interests are reaching new heights in the territory. Louise Lucas reports

Festering tensions between populist politics and business interests reached new heights in Hong Kong last week when Li Ka-shing, the property tycoon, said he had scotched a HK$10bn (US$1.3bn) joint project because of the political climate.

Mr Li did not elaborate, but his comments echo rumblings within the business community that the territory, which – cartels notwithstanding – prides itself on its *laissez-faire* principles, is becoming too politicised.

The divide has been exposed largely by the destruction of wealth in the wake of the Asian financial crisis. Hongkong Telecom clashed with trade unions over a proposed pay cut; home owners marched to Hongkong Bank over mortgages; and Mr Li's own company, Cheung Kong, took legal action against defaulting home buyers.

However, the seeds of polarisation were sown long before the recession.

Hong Kong's history is steeped in business, and business leaders have grown accustomed to helping shape policy.

The rigours of a partially elected Legislative Council, or parliament, are an altogether new phenomenon. Hong Kong's fledgling democracy was put on ice immediately after the handover of sovereignty in July last year – Beijing's response to UK efforts to accelerate the pace of democracy – but returned with a vengeance in May.

Pro-democracy parties dominated the popular vote, capturing 14 of the 20 directly elected seats. The other 40 seats, elected through small committees and professional associations, are largely the preserve of pro-business and pro-Beijing groups.

Those returning after their year in the wilderness were quick to make up for lost time, and have taken seriously their role as scrutinisers, monitors and champions of causes close to the hearts of people (although their ability to introduce bills is severely limited).

This has not always endeared them to the local business fraternity, where scrutiny of transactions and eloquent disapprovals (particularly when made in front of television cameras) are unwelcome. Thus Mr Li won plenty of support for his comments, at home and from across the border.

Although Mr Li was in part settling personal scores (against the too vociferous politicians who squealed when he sued defaulters on apartments, and again when he won a plot of government land at a better-than-expected price), his broader theme reached receptive ears.

Businessmen, ranging from small-scale restaurateurs negotiating their way through a maze of licensing procedures, through to big property developers, have voiced similar sentiments. They claim the territory's free market economy is being hampered by vote-hungry politicians.

"Hong Kong has changed. Before, it was an economy-led city and now it is a politics-led city," Ronnie Chan, head of Hang Lung Development, said this month.

But Mr Li sparked jitters among the ranks of pro-democracy circles and at the grassroots level, where the new-found attentions of politicians fighting their battles on livelihood concerns have been warmly received.

This is unlikely to bother Mr Li and his ilk. Self-made men, who climbed to the top of the wealth rankings by dint of hard work rather than state hand-outs, their sympathy for trade unions and others would be minimal even if it did not have an impact on their businesses.

Their Hong Kong – the colony where they sought refuge, and worked their way to riches – is one where the rich hold sway and enjoy the ear of the leader, and where contracts are always honoured.

For many years, Hong Kong was like that. The Legislative Council, Hong Kong's parliament, has always had a strong business bent and even today legislators representing the functional constituencies, small business and professional groupings collectively have power of veto on votes.

Li Ka-shing: sparked jitters among ranks of pro-democracy circles

The Executive Council, an appointed private cabinet which advises the leader, has likewise always had a strong business weighting, and Tung Chee-hwa, Hong Kong's chief executive and a former shipping magnate, has stuck with the tradition.

This year, a number of Mr Tung's policies have aided big business, especially the property developers who have benefited from the nine-month moratorium on government land sales.

The August intervention in the stock market, when the government spent HK$118bn to prop up prices and frustrate speculators' tactics, largely benefited the share prices of blue chip companies and property developers, such as those controlled by Mr Li.

Bob Broadfoot, managing director of the Political and Economic Risk Consultancy in Hong Kong, reckons many policy decisions emanate from business leaders such as Mr Li. "Mr Li's views and Mr Tung's views, either because they communicate or because they come from the same background, are very similar," he says.

Mr Tung has tacitly backed Mr Li by affirming his desire to foster a business-friendly environment, but sidestepped the bigger debate. As Hong Kong pushes towards greater democracy, and tycoons raise the stakes by withholding investment, this is a luxury Mr Tung may no longer be able to afford.

SINGLE CURRENCY SENIOR OPPOSITION PARTY MPs SEEK FIRMER COMMITMENT ON EARLY ENTRY

Pro-euro Conservatives press Blair

By Robert Peston, Political Editor

Pro-euro Conservatives are to press Tony Blair, the prime minister, for a firmer commitment that he plans to take the UK into the single European currency as the price for their participation in a cross-party campaign.

Talks are at an advanced stage on the creation of an all-party group to promote the euro. The plan is to launch it early in the new year, according to a senior Conservative MP and former minister.

Conservatives canvassed to play a leading role in it, including Kenneth Clarke, Michael Heseltine and Ian Taylor, are in no doubt it would be an embarrassment to William Hague, the Conservative leader, who is opposed to joining the euro for at least eight years.

"Blair will, of course, exploit it to highlight divisions in our party," said a Conservative MP.

They are, therefore, planning to tell the prime minister he cannot have their backing "for free". Mr Taylor said: "We are not there to provide convenient support for Blair."

Another former minister said the prime minister must "come off the fence" on the euro. "I am not going to make the running for the prime minister. I will back him if he takes the lead, but he cannot expect us to make the tough decisions for him," he said.

Mr Taylor gave three conditions for his participation in an all-party group. "It must be clear that economic policy is designed to enable us to make the decision to join early, there must be an indicative timetable to help industry make its preparations, and Blair must lead the campaign," he said.

Mr Hague would find it difficult to punish Tory MPs who campaigned against Conservative policy on the euro, since he has said it is a "conscience issue" not subject to normal rules of party discipline.

However, he will be under pressure from Eurosceptic colleagues to find a pretext for punishing any colleague who joined a cross-party pro-euro lobby group.

"Can you imagine how damaging it would be for us in a general election if Ken and Michael campaigned in favour of the euro," said a shadow minister. "Attacking the euro is the main weapon in our armoury."

Any cross-party MPs' group would be linked to Britain for Europe, the umbrella organisation for euro-campaigners that shares resources with the European Movement, a pro-European lobby group partly funded by Brussels.

Although the chairmen of most big UK companies are sympathetic to the euro, Britain for Europe is struggling to raise money.

"It is becoming a serious problem," said one of its members. "We have barely raised a bean".

Joint attack on Iraq puts overseas alliances to the test

The assault on Baghdad raises questions about Britain's relations with the US and the rest of Europe, writes **Robert Peston**

Within hours of cruise missiles raining down on Iraq before Christmas, Robin Cook, the chief foreign minister, was hosting a glittering Christmas party in the majestic Locarno Rooms of the Foreign Office in Whitehall.

It was an open secret among the politicians, journalists and business people present that the US and UK were about to launch an attack. One senior minister described the event as the "Ball before Waterloo". Others joked that the start of the campaign was being timed to coincide with the most popular news programme in the UK, ITN's *News at Ten*.

But behind the strained humour lay an uncomfortable fact for most of those present. The relatively new Labour government was going to war for the very first time.

Now that UK and US pilots have returned to base – although remaining on alert, as Monday's US strike showed – the mood among ministers is sober. They recognise they face uncomfortable questions.

Apart from the crucial one about whether Saddam Hussein has really been put "back in his cage" – to use the catchphrase trotted out by Tony Blair, the prime minister, as a substitute for detailed analysis – there are implications for the UK's overseas alliances. Has the prime minister chosen an Atlanticist destiny over a European one, having insisted for months that no such choice was necessary?

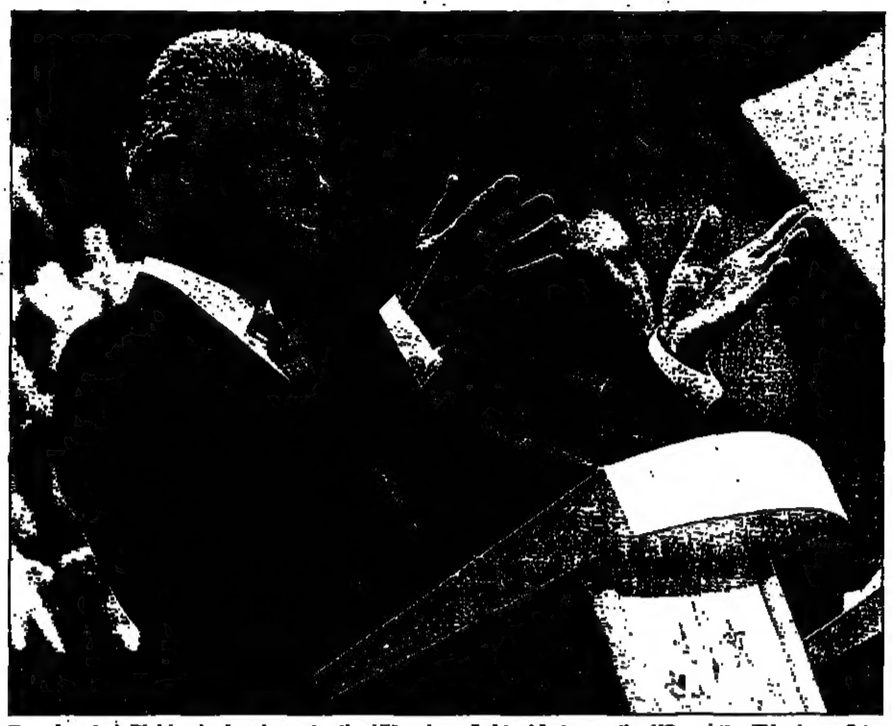
Mr Blair's aim, since the general election 19 months ago, has been for the UK to be a "bridge" between the US and the European Union.

On the eve of the outbreak of hostilities, he gave the latest formulation of the approach in a London speech. The UK was "realising once and for all that Britain does not have to choose between being strong with the US or strong with Europe". It "must be both", he said. The theory was that "we are stronger in Europe because of our strength with the US" and *vice versa*.

Ministers and officials insist that this "Third Way" between the US and EU remains intact. "It is not a case of the UK siding with the US rather than Europe over Iraq, because there is no European policy on the Middle East," said a senior government member.

On the other hand, the UK has caused offence to some leading EU members – France, Italy and Sweden – although ministers take comfort from the supposedly muted nature of French opposition. And the prime minister's office is delighted at the backing it has received from Germany and Spain.

However, there may be damage to UK foreign policy ambitions because the episode highlights European disunity on security issues at a time when Mr Blair is working closely with the French government to create a defence capability for the European Union.



Even handed: Blair's aim has been for the UK to be a 'bridge' between the US and the EU Jason Orton

Ministers insist there is no sign of the French becoming more wary of the plan and say that the new institutional architecture for the EU should emerge in the first half of next year. "In fact all the intelligence we are receiving indicates that other EU members think the case for strengthening Europe's foreign and defence decision-making capability has increased," said a UK diplomat.

But other EU members may eventually question whether there is any point in setting up new decision-making machinery for Europe in respect of defence, if the UK is bound to side with the US on a regular basis.

"Clearly there is no possibility of our agreeing any arrangement for the EU which would prevent us doing the sort of thing we have just done in Iraq," said an official.

This undermining of Mr Blair's European credentials would matter less if he had extracted a huge price from Bill Clinton, the US president, for UK military support.

Mr Clinton ought to be grateful, since it was only the UK involvement which allowed him to claim he was motivated by national and global security concerns – and not by a desire to put pressure on congress to suspend its impeachment proceedings against him.

In fact, as UK officials concede, there is a strong probability that Mr Blair has given succour to an irretrievably wounded US president, whose successor – even if it should turn out to be Al Gore, the Democrat vice-president – would feel under little obligation to repay the debt.

In the harsh light of the end of the year, ministers may look back at the "Ball before Waterloo" and see it instead as the naive celebration of a somewhat spurious victory.

NEWS DIGEST

HOUSING

Price rises expected to be above inflation rate

House prices will rise faster than inflation in 1999, but will climb more slowly than in 1998 due to the faltering economy, according to Halifax, the UK's biggest mortgage lender.

It predicts prices will rise by 4 per cent next year, slowing from a 5-6 per cent rate of increase this year.

"While house prices in Greater London and the south-east are likely to increase more slowly than in 1998, the south is expected to continue to record the biggest rises in prices. This is principally because the rest of the country is likely to be more badly affected by the economic downturn due to its higher dependence on the internationally traded sector which will be worst hit by the global economic slowdown and the high value of the pound," the bank says.

It predicts base rates will fall from 6.25 per cent to around 5.5 per cent by the middle of next year, but gives no mortgage-rate forecast. **Christopher Brown-Humes**

RECEIVERSHIPS

Business failures rise 6%

Economic slowdown and the strength of sterling have forced tens of thousands of businesses into receivership this year, contributing to a sharp rise in corporate failures.

A report published today shows that 200 UK companies are collapsing each month. A rapid increase in insolvency is likely to continue well into next year.

According to Dun & Bradstreet, the credit information company that produced the report, some 38,634 businesses failed in 1998, an increase of 6.2 per cent from 36,368 last year. The annual rise is the first since the height of the recession in 1992.

"The collapse of world markets and the strong pound are the main contributors," said Philip Mellor, analyst at Dun & Bradstreet.

"You have had company start-ups failing as you would in good times, but their problems have been compounded."

Manufacturers dependent on exports to east Asia have been hit hardest. **Christopher Adams and Norma Cohen**

LEGAL PROFESSION

Move to improve image

Question: "How many lawyers does it take to change a light bulb?" Answer: "How many can you afford?"

For centuries greedy lawyers have been the butt of jokes, but now, the much-abused profession has had enough.

The Law Society, representing 70,000 solicitors in England and Wales, has called in spin doctors to repair their tattered image.

Biss Lancaster, public relations consultants, have been hired to defend the solicitors against what they say are unfair "fat cat" slurs and growing criticisms.

Biss Lancaster will work with the society until the summer, helping to find new outlets – including the media – to communicate "a positive image" for solicitors, and advising on internal procedures. **Brian Groom**

INFORMATION TECHNOLOGY INTERNET SECURITY

The key to building trust in e-commerce

Public key infrastructures will give potential online customers the confidence they demand, writes **Alan Stewart**

The electronic commerce community never tires of claiming that it is safer to entrust your credit card number to cyberspace than give the card to a waiter in a restaurant.

There is a lot of truth in this but, unfortunately, not everyone believes it. A US internet shopping survey published by Ernst & Young earlier this year found that almost 70 per cent of those who had yet to make an internet purchase were uncomfortable sending credit card details over the web.

For e-commerce operators, such lack of trust among potential users is a worry, as it could hold back the development of online business. As Khalil Barsoum, IBM's European general manager, industries, puts it, "If security is a concern of your customer, then it's your concern too."

Many companies are now combating security problems, perceived or real, by investing in what is known as a "public key infrastructure" (PKI). According to Ira Machefsky of Giga Information Group, the market analyst, this is the most critical enterprise security investment a company will make in the next three years. "PKI technology solves the problem of who is out there trying to do business with you by providing strong authentication with digital certificates," he says.

A PKI allows reliable business communications by providing privacy and data integrity through the use of encryption and digital signatures. Public key cryptography is a technique in which two keys are used to encrypt and decrypt a message, one being a public key made known to everyone. "That key is used to encrypt messages you send to me," explains Mr Machefsky. "It is the nature of public key cryptography that the message can only be decrypted with my private key, which is my secret."

Conversely, a message can be encrypted with a private key, and decrypted only using the corresponding public key. "That allows public key cryptography to be used for digital signatures, authentication and non-repudiation," says Mr Machefsky. "A digital certificate is an online document that binds my identity to a particular public key."

The Radicati Group, another US analyst, forecast recently that revenues for enterprise PKI software would grow from \$250m in 1998 to more than \$1bn by 2001. Radicati also predicted that the market for outsourced PKI services would rise from \$35m in 1998 to \$962m by 2002.

The main suppliers in the PKI field are Entrust Technologies, a US-based spin-off from Northern Telecom that offers PKI software for a company to purchase and deploy itself, and VeriSign, which makes PKI services available on an outsourced basis. Other PKI suppliers include US companies Entegrity, Netscape and Xcert, Zergo of the UK and Ireland's Baltimore Technologies, which is being acquired by Zergo.

Leading businesses outsourcing their PKIs via VeriSign include US financial services providers Morgan Stanley, NationsBank and First Union (to enable secure private transactions with customers and employees over the Internet), telecoms company USWest (issuing certificates to retail customers to allow them access to product, billing and service information), and computer manufacturer Texas Instruments (to allow partners, employees and customers access to data on intranets and extranets).

Meanwhile, a wide variety of companies and organisations purchase PKI software for their own use. "In the last six to nine months, a number of large blue-chip companies, such as banks, pharmaceutical firms, and aerospace companies, have been running pilots prior to carrying out large-scale roll-outs," says John Hughes, Entegrity's director of European business development. Mr Hughes expects to see a big push towards large corporate PKIs in the second quarter of 2000, as spending to fix year 2000 problems tails off.

In the UK, the Royal Mail is about to launch a "trusted third party" security service underpinned by Entrust's PKI, according to Andrew Young, business systems manager.

The Royal Mail will be providing the software to customers and publishing a directory of certificates containing the public keys required to verify digital signatures. A pilot service has been running since April. "The advantage of using strong authentication and encryption," says Mr Young, "is that data you might not previously have trusted to this environment can be made available across the internet securely and in an authenticated manner, which helps to improve the co-operation between customers and suppliers".

Zergo is to supply the security to the UK's Midland Bank for a new network-based banking application. Baltimore operates the Euro-trust security infrastructure for electronic commerce on behalf of the European Commission, and is to deploy a PKI for the Bank of Ireland's new internet banking service.

Paris-based start-up CashWare is providing what it claims is a highly secure extranet-based global cash management service, based on a PKI from Entegrity, using data encryption and digital signatures. Banca Nazionale del Lavoro, an Italian financial services group, intends to use a PKI from Entrust to protect its internal systems and to develop a new range of secure services for private and corporate customers.

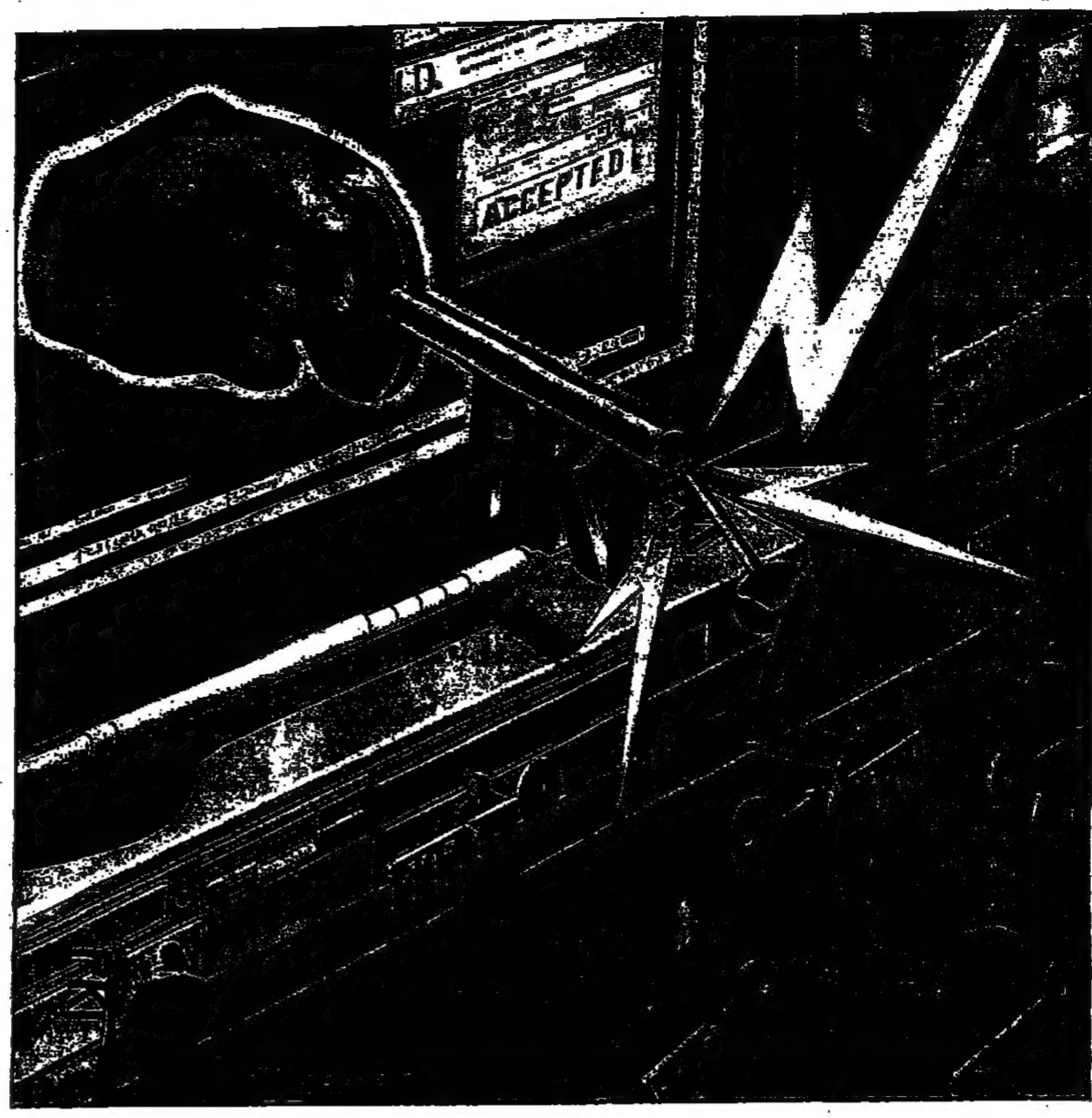
'If security is a concern of your customer, then it's your concern too'

One of the earliest users of PKIs was the Canadian government, which in 1996 began developing a secure infrastructure for "electronic government," its preferred way of service delivery. "We're now developing the business applications that'll make use of the new infrastructure," says Michael de Rosenroll, director of the government's interdepartmental PKI task force.

The earliest, most prevalent uses will involve remote access, distance work, mobile offices with government inspectors, and access controls so that staff in provincial offices can access federal databases.

But Mr de Rosenroll stresses that, "to have a really sound business case, we have to interoperate federally, provincially, and internationally with other PKIs." As important as the technical interoperability, he says, is having legal and policy frameworks that are compatible. An organisation needs to be able to rely on a certificate issued by an external PKI and vice versa. "That's probably the ultimate challenge: to ensure the interoperability between PKIs," says Mr de Rosenroll.

The Radicati Group foresees a battle over security standards over the next few years, but expects that industry and government organisations will increasingly work together to establish internetworking standards. Already, rival PKI software suppliers are co-operating to make sure their systems are interoperable, but the proof will come only through testing.



CASE STUDY SWIFT

Service with security

Swift, the Brussels-based bank-owned co-operative that supplies secure messaging services to more than 5,800 financial institutions in 156 countries, is basing its security infrastructure on Entrust's PKI, *writes Alan Stewart*.

As well as handling the information exchange needs of its members, Swift also provides services to brokers, investment managers, securities deposit and clearing organisations and stock exchanges.

The organisation's current network is based on the use of keys at either end of the line for encryption and authentication. These need to be distributed physically to users, and several bespoke systems for key-exchange have been deployed.

According to Carlo Schupp, Swift's senior security product manager, the organisation realised about two years ago that it needed to implement a PKI to provide automatic management of its public key security, and which could also be used by its customers.

Erik Guldentops, director of global information security at Swift, believes the use of a PKI will support the organisation's need to strengthen security through encryption, authentication and non-repudiation.

Central management of keys is expected to simplify key and certificate revocation (cancellation). Swift will also be able to validate messages by checking signatures without having to decrypt them, as it does with its current system.

The original plan was to use the PKI with existing services, and Swift has already replaced its in-house solutions in some areas. It has now decided, however, to develop new services and to concentrate on implementing its PKI in these.

Currently, several areas are under development, including a system that will handle the secure exchange of trade documents. The PKI will also support secure messaging services for a euro clearing system run by the Paris-based European Banking Association, and form the core of Swift's new electronic trust service. This will provide member banks with certificates to sell on to their corporate customers, so they too can carry out secure transactions over the web.

MY SECRET WEAPON HARUKO FUKUDA ON PRAGMATISM AND A SAMURAI SPIRIT

Intense drive to bridge two cultures

Courage and stamina have taken the Japanese high flier to the top, says **Alison Maitland**

Haruko Fukuda, a doyenne of London's financial community, has achieved many firsts. A member of the council of the Nikko Research Centre, a global economic institute, she was the first Japanese woman to work at a senior level in a Japanese financial institution, as vice-chairman of Nikko Europe. Earlier, as a partner at James Capel, she was the first foreign woman member of the London Stock Exchange. As the eldest daughter of the late Masaru Fukuda, a senior ministry of finance official who served in Washington and London in the 1960s, she was educated in Japan, the US and UK and became the first Japanese undergraduate admitted to Cambridge without a previous degree. A free trader and opponent of the European single currency, Miss Fukuda, 52, will be taking up new business posts in the new year after Nikko closes its London operations because of the economic turmoil in Japan.

The two most important things that have made my career moderately successful are stamina and courage. I possess a samurai spirit of never giving up. But I also carry on the fine British tradition of pragmatism and applying creative ideas and imagination in solving business problems.

When I was 14 I went to America with my parents. The contrast between my very traditional Japanese life in Tokyo before and in Washington after was great. Before, I was surrounded by family and friends in a very closed society. Then I was suddenly put in the middle of a mixed American junior high school surrounded by a different language and culture. I didn't speak English very well and yet I had to keep up with the rest of the class. I worked tremendously hard to make sure I did. That generated in me a sense of American-style competitiveness.

Two years later my father was transferred to the embassy in London and it was the same thing all over again. I had to take "O" levels in the very year I went to a Highgate girls' school and then "A" level exams. Then I had to strive to get into Cambridge by an examination and interview.

At Cambridge I gained the courage to express my opinions. I gained a firm belief in the correct scale of values in human life. For example, personal integrity, humanity and kindness are very important when you are leading a team of people or making decisions for a company.

At Cambridge, we were all friends and equals. I didn't expect it to be otherwise in the outer world. By and large, this has been proved right. In fact, it has been rather an advantage to be a woman and Japanese because people noticed and remembered me. I have been lucky because I have been working in the City, where the tradition is one of non-discrimination. I have always worked with men on equal terms, even in restaurants with geisha, where I was treated as an honorary man. It was very enjoyable because I enjoy male company and the cut and thrust of argument.

Stamina is important in the City. Doing business across time zones required large amounts of stamina, particularly in such an intensely competitive environment. I can keep going with five or six hours of sleep.

Throughout my commercial life, courage has been an important factor, not just in expressing views but in making business decisions.

I suppose that my most special quality is that I am perhaps more deeply steeped in both British and Japanese business cultures than any other Japanese of my generation. For several years, at James Capel in London, I was conducting a larger business with Tokyo in Japanese stocks and shares than anyone else in the City. When I moved from a British to a Japanese stockbroker, the change of cultures was a challenge. The British reach decisions by debate, sometimes fierce. In Japan they are reached by consensus-building, informally, behind the scenes as it were. I prefer the former but the effort needed to operate effectively in the latter was valuable experience – I sought to bridge the two cultures. It's very sad for me to see Nikko close down in London after 40 years of strenuous effort.

My life has been extremely busy at all times and intellectually intensive as well. I find physically creating things, such as gardening or cooking, therapeutic. I became an instant gardening bore in 1981 when I bought an old house in Suffolk with a big garden which needed lots of work. Gardening has taught me not to be a perfectionist. Whatever you plan, it doesn't turn out exactly as you intend.

'It has been rather an advantage to be a woman and Japanese because people noticed and remembered me' David Ahmed

INFORMATION TECHNOLOGY BRIEFS

Set-top box for television that reads your mind

Cable and satellite television have brought dozens of new channels into the home but it can still be a challenge to find something worth watching.

Video tape recorders, with their "time-shift" ability, provide a partial solution but are difficult to operate and rather primitive in their options. Meanwhile, most video-on-demand and "interactive" TV trials have been expensive flops – Time-Warner is rumoured to have spent \$150m (£89m) on its Orlando, Florida project before it was abandoned.

Now a California start-up called TiVo founded by James Barton and Michael Ramsey, two former Silicon Graphics engineers, believes it has cracked the problem. They have designed an intelligent, simple-to use set-top box digital recorder that aims to deliver "customised TV" to its users by storing programmes locally rather than on a centralised server.

The TiVo box, which is expected to cost about \$300 and be capable of recording up to 20 hours of television, operates somewhat like a VCR but is much more flexible and does not require any user programming. It "discovers" which programmes to store by monitoring a family's viewing habits and building up a user profile.

Stored programmes can be watched at the user's convenience and unwatched footage is eventually erased to make room for new material. "TiVo literally turns broadcast television upside down – giving viewers ultimate control over what they choose to watch and when they choose to watch it," says the company. "Any programme – even live broadcasts in progress – can be paused, rewound or fast-forwarded."

www.tivo.com

An answer to video nasties

Many video cassette recorders send out infra-red signals to switch channels on a satellite or cable receiver. This enables users to record from different channels in succession, without having to change them manually or set an event timer on the satellite receiver, *writes David Murphy*.

But users tend to store satellite channels in different positions on their receivers, so they have to instruct the VCR where each channel is stored.

On Thomson's VPH6990, however, once the initial set-up procedure has taken place, the VCR scans all received satellite channels and memorises their position on the satellite receiver. When a VideoPlus recording for a satellite broadcast is programmed, the VCR knows automatically which satellite channel to turn to.

The VCR also features a way of setting the timer which is, arguably, even simpler than the VideoPlus system. The user tunes the VCR to the channel he wishes to record and calls up an 'Onscreen TV Guide' which lists all the programmes broadcast on that channel that day. The user highlights the programme to be recorded and hits the OK button on the remote control to automatically set the timer.

A version of the VCR which will switch channels on digital TV decoders from Sky and On Digital should be available in the UK in the second half of 1999.

www.thomson-multimedia.com

Rio grand for music on the move

The Sony Walkman portable cassette recorder transformed music on the move for a generation and has only recently begun to be replaced by portable CD-players and CD mini-discs.

However, these devices have some drawbacks: All have moving parts, cassette tapes are not always the best quality and can become tangled and disc players tend to "skip" if moved violently.

To overcome these problems Diamond Multimedia, best known for its video cards and other PC peripherals, has developed the first portable MP3 music player for less than \$200 (£120).

The palm-sized Rio PMP300 stores, on a built-in 32Mb flash memory card, up to 60 minutes of high quality digital audio that has been compressed using the MP3 internet music standard. This means there are no moving parts – and no skips. Playback time can be expanded using removable flash memory cards.

MP3 files can be a quarter to one-twentieth the size of a standard CD-audio file, yet still retain the same high quality digital audio.

Music can be loaded into the Rio from a PC either by downloading from one of the rapidly expanding number of legitimate MP3 web sites, or converted to MP3 format from existing personally owned CDs using software included with the device.

The traditional music industry has become increasingly concerned about the implications of digital distribution and the potential for piracy. In the US, the Recording Industry Association of America lost a legal battle to block the sale of the Rio in November.

www.diamondmm.com

Canon develops X-ray vision

X-ray images remain a vital medical diagnostic tool but the time-consuming and cumbersome process for creating them has changed little over the years.

But Canon has now used its expertise in digital and X-ray imaging to produce a filmless digital X-ray camera that produces high definition 43cm by 43cm images for preview in just three seconds and reduces the time between exposures to only six seconds.

The CXDI-11 draws on Canon's experience with amorphous silicon line sensors, originally developed for the Japanese group's scanner and fax products. A touch panel LCD interface enables the operator to select images and transfer them for viewing, printing and archiving on a computer network. Canon claims the camera not only eliminates the time and expense of traditional film radiography but also improves efficiency and patient care.

The large image is especially useful for chest X-rays and the imaging unit can be positioned to view other parts of a patient's anatomy.

www.canon.co.jp

Paul Taylor

OPERA IN 1998

When power politics caused discord in the House

Throughout the year the Royal Opera House saga has poisoned the entire arts climate in the UK, mourns **Andrew Clark**

It's all politics. And why not? That's all Britain's New Labour government is interested in when it comes to the arts. Access. Outreach. Education. Accountability. The great mantras of 1998 had everything to do with politics and nothing to do with artistic seriousness. In the wake of the Royal Opera House debacle, all sorts of demagogic arguments came into play. Noticeable by its absence was a conviction in government circles that the arts are an essential part of our cultural fabric. Arts companies in the UK could argue *any* case, as long it didn't involve arguing that their work was artistically important. That would have been embarrassing.

Artistic seriousness is not one of the fashionable buttons this government responds to. That's why the debate about the arts in the UK this past year has been so artificial. What's the point of expending energy on educational outreach when you can't even serve your core audience adequately? Why has accountability suddenly become so all-consuming, in a sphere of activity where the value of your work cannot be quantified? It's hardly surprising the most prominent voices have been those of businessmen and arts politicos – people with fluency, people interested in power rather than what is produced. Those are the only people this government understands.

As the Royal Opera House saga continued to unravel, poisoning the entire UK arts climate, the government sat on the sidelines. *The Eyre review – to which New* Labour responded with a blank face – reinforced the impression that it simply doesn't know what to do. As far as senior government figures are concerned, there's no will to change the framework in which the arts work. *That* would have been radical. But this is a conservative government.

At year-end, there are limited grounds for optimism at Covent Garden. The appointment of Michael Kaiser as executive director has taken the pressure *off Sir Colin Southgate* and his board. The atmosphere has become more easy-going, there are no more heavy-handed deadlines. The orchestra still hasn't agreed terms, and some good musicians are leaving, but a deal looks imminent. A fair amount of work has been salvaged for 1999.

Since his arrival last month, *Kaiser has made all the right* noises. At last, someone seems to be in charge. But the underlying problems remain. First, the board has yet to find an artistic director, and to determine who will hold ultimate authority. Just by being there, Kaiser is already entrenched. But if the artistic director has equal authority, who will have the final say? It's an open invitation for the board to continue its disastrous record of interference. For any company to function effectively, its energies and spirit must be focused through the personality of one recognised leader. In an arts institution, that leader needs to be someone with artistic credibility.

The second problem concerns the ethos of the Royal Opera House. When you take into account a decade of chronic *underfunding, the proposed 11* per cent rise in subsidy is not what it seems. Behind the generous veneer lies a classic political fudge. The government cannot let the opera house collapse, but is frightened to single it out for *special treatment. By giving* the new management the minimum necessary to set the renovated theatre on its feet, it is hoping to wash its hands of the whole opera problem. This is a delusion. While the ROH remains dependent on the largesse of Vivien Duffield and her friends for a substantial part of its income, its ethos will be that of a rich man's playground – no matter how many reduced-price matinees and studio performances you put on. The redevelopment was a once-in-a-lifetime opportunity to change the way the UK's premier opera house is run, and the government *has flunked* it. If we had an effective Arts Council, the problem might not exist.

We're reaching a position where the arts climate is more honest in the US than in the UK. *Take the Metropolitan Opera: Wozzeck* and *Katya Kabanova* are in its repertoire, *Moses und Aron* and *Doktor Faust* will shortly be added – even with 4,000 seats to fill every night and virtually no subsidy. The Met's casting *for standard repertory is fabulous.* There are still a lot of awful Monday nights, but the company's artistic profile is changing. As Brian McMaster, Edinburgh festival director, said earlier this year, some of the old principles still apply. "If you give people the real experience, they'll respond. Fantastic programmes bring fantastic audiences. If you give them shit, the public smell it and stay away. A lot of those who talk of the need to popularise the arts have yet to realise this."

The redevelopment of Covent Garden was a once-in-a-lifetime opportunity to change the way the UK's premiere opera house is run, and the government has flunked it

Those principles apply not just to McMaster's Edinburgh, but to all of Europe's most successful operatic centres, with Amsterdam and Paris leading the way.

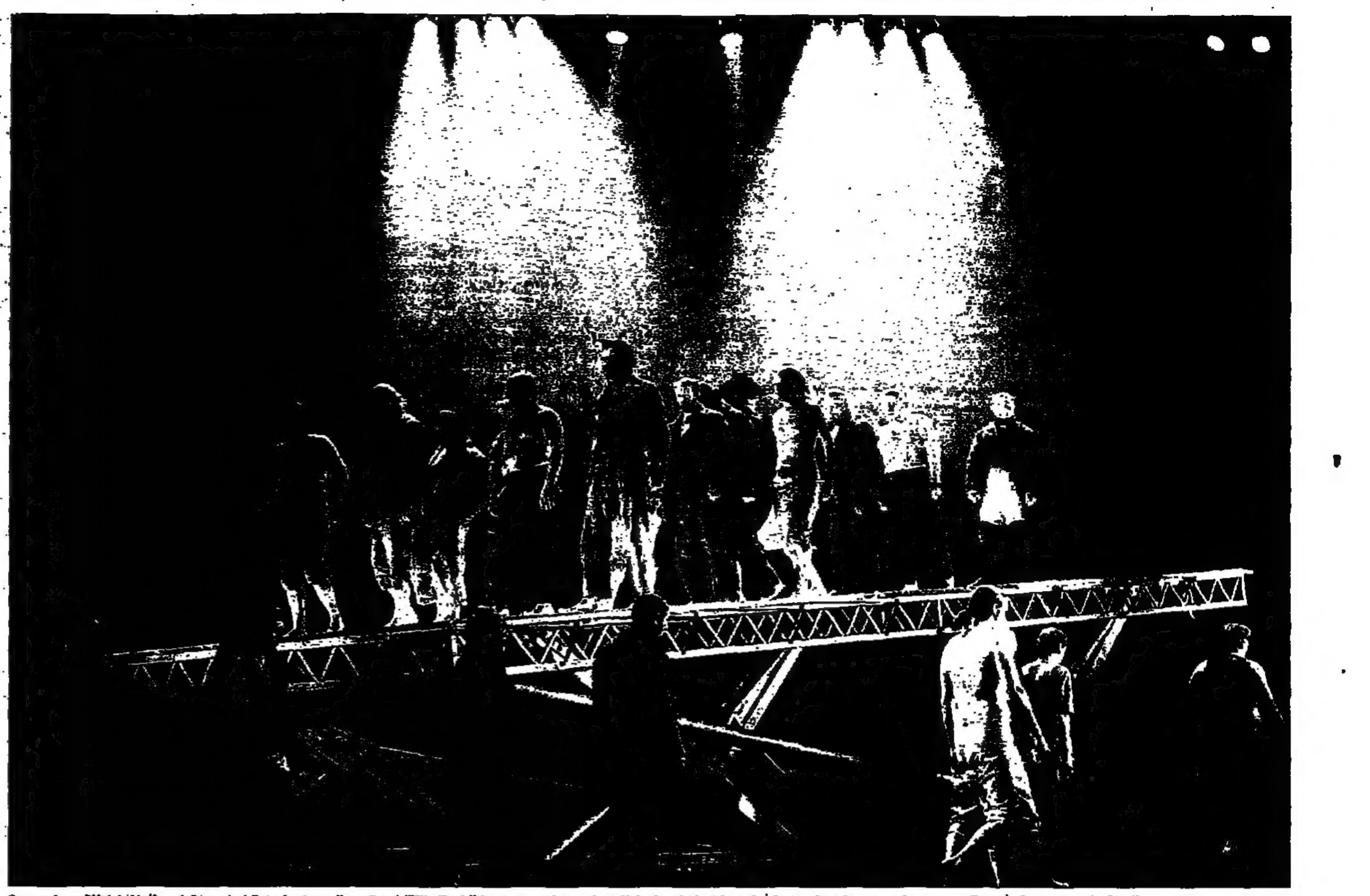
The same principles were not *always upheld* by English National Opera this year, but there were extenuating circumstances. The company was forced to spend the first six months pleading its case to the Eyre review. The result has been a *year of marking time artistically.* There was a flowering of new talent within the ensemble, but no sign that the company was ready or able to fill the gap left by Covent Garden. Most new productions disappointed. Paul Daniel, distracted by political fire-*fighting, has not yet adjusted* from the intimacy of Leeds to the size of the Coliseum. The orchestra is sounding noisy and heavy. Daniel played a pivotal offstage role in saving the company, but he has so far failed to stamp his authority in the pit.

Pressed to name the London performances I enjoyed most, I would cite *Die aegyptische Helena* and *Der Freischütz* – both Royal Opera concerts. The Strauss, conducted by Christian Thielemann, was a real event. Here was a piece with limitations, performed with great intensity and conviction.

The headline-grabbing travails of opera in London obscured the problems of regional companies, where a handful of artistic triumphs camouflaged signs of underfunding. Casting is increasingly being done on price. Cracks are appearing, and are likely to become bigger. Welsh National Opera had the biggest success: *Billy Budd* and *Jenufa* were blisteringly well realised. Scottish Opera's *Dalibor* was a *succès d'estime*, superbly conducted by Richard Armstrong. At Leeds, Opera North must hope its new music director, Steven Sloane, can make up in energy what he lacks elsewhere.

None of these companies was quite as absorbing to watch as Glyndebourne. There were two significant events, neither of which had anything to do with the disastrous new *Cosi*. First, the tenor in *Simon Boccanegra* was sacked without reference to the conductor, Mark Elder, who had every right to feel disillusioned. The decision appears to have been a carve-up between Sir George Christie and Sir Peter Hall, an apt illustration of Glyndebourne's feudal command-structure.

Second, Nicholas Snowman arrived at the end of summer as general director. All the signs are that he will try to run the show *himself*, without a music director or head of production. He has already signed up Valery Gergiev for *Tristan* and *Otello*, doubtless with a bevy of Russian singers in tow. The Christies may have got more than they bargained for. *While the London companies dig* themselves into the mire of New Labour arts policy, life on the Sussex Downs over the next two years promises an entertaining diversion.



Scene from Welsh National Opera's blisteringly well-realised 'Billy Budd' in a year when a handful of artistic triumphs for regional companies camouflaged signs of underfunding Alastair Muir

NETHERLANDS OPERA THE QUEEN OF SPADES

The crime of lèse-majesté

In opera, as in life at large, there is one problem with European co-operation. The nation states may have shared interests, but that does not mean that a joint effort is going to bring equal delight to all.

The new production of Tchaikovsky's *The Queen of Spades* at the Netherlands Opera is a case in point. *This is a joint* production, which will go to the Maggio Musicale in Florence and the Opéra Bastille in Paris once its initial run of performances at the Muziektheater in Amsterdam is over – a sensible arrangement at a time when costs are being squeezed in most opera-houses across Europe.

Unfortunately, one man's good investment is another's wasted money. A few years back the Netherlands Opera put on a production of Verdi's *Luisa Miller* which was hailed as a big success locally, whereas visitors generally thought it a horror. Now the story is being repeated with *The Queen of Spades*, generously applauded by its home audience recently, but met with screams of derision from passing Anglo-Saxons.

Its producer is Lev Dodin, Siberian born and now the artistic director of the Maly Theatre in St Petersburg, so he is more a man of the theatre than the opera-house, a couple of important operatic engagements in Florence apart. Obviously he has yet to feel the wrath of a leading international maestro breathing down his neck, or he would not have treated *The Queen of Spades* in such a cavalier fashion.

In Dodin's version of the opera, Herman does not commit suicide as insanity beckons; he starts out completely mad and seems to be reliving events as flashbacks in his deluded mind.

Only an innocent to the world of opera would think he could excise pages of Tchaikovsky's score and re-assign the voice parts at will. Semyon Bychkov, conducting a less than impassioned Residentie Orkest for the Netherlands Opera, seems to have let him get away with it. I suspect Dodin's production is *only going to survive in Paris* and Florence if Bychkov follows it there too.

The justification – if it can be called that – for Dodin's rewriting of the score is his wholesale re-interpretation of the drama. In this version of the opera, Herman does not commit suicide as insanity beckons; he starts out completely mad and seems to be reliving events as flashbacks in his deluded mind. No matter that Tchaikovsky's music has its own chronology, which is constantly being contradicted. In a world of madness anything goes.

Oh dear, what a thrilling opera Tchaikovsky made of *Pushkin's novel and how boring* Dodin's version of it was here. How could there be character *development when Herman's* personality had nowhere to go? How could the relationships mean anything to the audience when they were all being viewed through a madman's fogged mind?

If anybody could have made this nonsense work, it would have been Vladimir Galusin, a leading tenor with the Kirov Opera in St Petersburg, who sang the role of Herman with searing power and intensity. There is probably no other tenor around today who can equal him in this opera – not even the marvellous *Yury Marusin at Glyndebourne* a few years ago, who had problems with tuning.

Of the two alternate sopranos, this performance had Natalia Ushakova, an uneasy Lisa, whose Slavic soprano had a tendency to become edgy whenever top notes beckoned. Pavlo Hunka sang Count Tomsky's story-telling aria vividly and his friends *Chekalinsky and Surin* were well in the picture as played by Marcel Reijans and Harry Peeters. Prince Yeletsky's *favourite* solo was less suavely sung than usual by Vassily Gerello.

The production also had one starring cameo in the person of Helga Dernesch as the Countess. Or, at least, the role is a cameo in Tchaikovsky's version. Here the resourceful Dernesch, once a noble Brünnhilde, now a mezzo to make men tremble, found herself chipping into Tomsky's aria, taking over *one of the roles in the* Intermezzo, and turning her final appearance into a coup de theatre as the asylum's formidable matron.

The only people who looked as if they were enjoying themselves were the chorus, who were able to while away the evening in various states of insanity, clutching at pillars or twitching *merrily in the background.* Are Paris and Florence really going to take over this production? They must be mad.

Richard Fairman

INTERNATIONAL Arts Guide

CHICAGO

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Julia Margaret Cameron's Women: 60 vintage prints of Victorian subjects such as Julia Jackson, mother of Virginia Woolf, and Alice Liddell. Cameron's portraits of Browning, Darwin and Tennyson are well known. Her dramatic, psychological pictures of women are less familiar. The exhibition will travel to San Francisco; to Jan 3

FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-299 8820
Alberto Giacometti: *retrospective* of work by the Swiss sculptor and painter. Also featuring prints and drawings, the exhibition charts Giacometti's artistic output from his early years in 1920s Paris to his death in 1966; to Jan 3

OPERA
Oper Frankfurt
Tel: 49-69-21237 999
www.frankfurt-business.de/oper
Rigoletto: by Verdi. Conducted by Olaf Henzold and staged by Kurt Horres. With John Bröcheler and Elzbieta Szmytka; Dec 30

LONDON

EXHIBITION
Royal Academy of Arts
Tel: 44-171-300 8000
Picasso: Sculptor and Painter in Clay. This first major exhibition of Picasso's ceramics includes around 100 pieces, *many of* which have never before been exhibited. They are shown with some paintings and sculptures, demonstrating how Picasso developed his ideas across different media; to Jan 1

THEATRE
Albery
Tel: 44-171-876 1115
Mr Puntila and his man Matti: Kathryn Hunter's production of Brecht's satirical comedy transfers from the Almeida Theatre to the West End; Dec 30, 31; Jan 1, 2, 4

National Theatre
Tel: 44-171-928 2252
Betrayal: by Harold Pinter. Trevor *Nunn directs Pinter's 1978 play,* with a cast including Anthony Calf and Imogen Stubbs; Lyttleton Theatre; Dec 30, 31; Jan 1, 2, 4

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Milan Horvat in Beethoven's Symphony No. 9; Dec 30, 31

DANCE
Philharmonie Gasteig
Tel: 49-89-5481 8181
St. Petersburg State Ballet: in a new staging of Dornröschen by Nikita A Dolguschin; Carl-Orff-Saal; Dec 30

NEW YORK

CONCERT
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in a New Year's Eve Gala, with a programme including works by the three Strausses. With sopranos Deborah Voigt and *Noemi Nadelman*, and mezzo-soprano Angelika Kirchschlager; Dec 31

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● From Van Eyck to Brueghel: Early Netherlandish Paintings. Almost 100 paintings from the collection, exhibited together for the first time; to Jan 3
● Louis Comfort Tiffany: *celebrating the 150th anniversary* of the artist's birth, this exhibition, drawn from the museum's collection, includes leaded-glass windows and lamps, vases, furniture, enamels and jewellery; to Jan 1

Pierpont Morgan Library
Tel: 1-212-685 0008
Charles Dickens - A Christmas Carol: the manuscript of Dickens's novel is the centrepiece of this holiday exhibition; to Jan 3

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Die Fledermaus: by J. Strauss. Revival conducted by Patrick Summers. Cast includes Carol Vaness, Jochen Kowalski and Bo Skovhus; Dec 31; Jan 2

OTTAWA

EXHIBITION
National Gallery of Canada
Tel: 1-613-990 1985
Songs on Stone: James McNeill *Whistler and the Art of* Lithography. Previously seen in Chicago, around 200 works by the American expatriate, including drawings, etchings and paintings; to Jan 3

PARIS

EXHIBITIONS
Espace Electra
Tel: 33-1-4284 2360
Photographic Fictions; to Jan 1

Grand Palais
Tel: 33-1-4413 1730
Gustave Moreau: more than 140 works by the Symbolist painter, held in high esteem by his literary contemporaries. Includes *studies and drawings* as well as oils, many of them depictions of historical and mythical subjects; to Jan 4

Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
Stéphane Mallarmé (1842-1898): retrospective exploring the work of the French Symbolist poet, and his influential relationships with his literary and artistic contemporaries; to Jan 3

Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Portraits from Roman Egypt: touring exhibition of mummy portraits from the British Museum. Painted on wooden panels, linen shrouds and plaster masks, they were created during the first three centuries of Roman *rule in Egypt*; to Jan 4

PRAGUE

THEATRE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan Rajmont; Dec 31

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Peter Guth in a Viennese gala concert, with soprano Izabela Labuda; Dec 30, 31

VIENNA

CONCERT
Musikverein
Tel: 43-1-5058 6810
Vienna Philharmonic Orchestra: conducted by Lorin Maazel in a New Year's Day concert which marks two historic anniversaries: the 150th of the death of Johann Strauss the elder, and the 100th of the death of Johann Strauss the younger; Jan 1

OPERA
Staatsoper
Tel: 43-1-51444 2960
Ernani: by Verdi. Conducted by Seiji Ozawa in a new staging by Graham Vick; Dec 30; Jan 3

WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
Van Gogh's Van Goghs: 70 paintings loaned by the Van Gogh Museum in Amsterdam. Includes such icons as The Potato Eaters (1885), Self-Portrait as an Artist (1888), The Harvest (1888) and Wheatfield with Crows (1890); to Jan 3

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
Die Entführung aus dem Serail: by Mozart. L.A. Opera production by Michael Hampe, conducted *here by Heinz Fricke;* Eisenhower Theater; Dec 31; Jan 3

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Max Beckmann and Paris: more than 100 masterpieces of modern art from public and private collections around the world. Works by Beckmann are shown alongside paintings by Matisse, Picasso, Braque, Léger *and Rouault*; to Jan 3

■ TV AND RADIO

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BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

Not yet out of the woods

The performance of emerging markets will vary but their general outlook is poor, argues **Matthew Merritt**

1999 NINETEEN NINETY NINE

To describe 1998 as a difficult year for emerging markets would be something of an understatement. Their travails are far from over and no immediate improvement in the economic fortunes of developing economies is in prospect.

As financial market strains have spread from Asia, more restrictive monetary and fiscal policies are strangling economic growth in other emerging economies. After contracting nearly 9 per cent in 1998, south-east Asia should achieve only a modest recovery over the next two years, while in Latin America an economic deterioration – set to be the worst since the debt crisis of the 1980s – is only just beginning.

These shifting economic outlooks reflect the different stages reached by emerging countries in the adjustment process and, from an equity investor's viewpoint, this suggests that their performances will vary.

Put simply, Asia is close to the bottom in its contractionary adjustment, while Latin America is still in the early stages of a cyclical downturn. Emerging Europe (excluding Russia) appears relatively cushioned from global slowdown pressures but South Africa remains vulnerable.

As for the wider implications of these adjustments, reduced demand in emerging markets is exacerbating the effects of global excess capacity. It will be an important factor in the slowdown of world growth to a mere 2 per cent next year – and even that assumes significant further easing of monetary policy in the west.

For equity investors, the tussle between a deteriorating corporate profit outlook in the face of slower global growth and the support offered by lower interest rates will hold the key to the direction of stock markets in developed countries. This in turn will have a direct impact on the outlook for emerging markets.

The close relationships between developed and emerging-market equities suggest that emerging-market stocks are ill-placed to cope with big setbacks in the developed world. This, though, is unlikely. Lower interest rates should outweigh the negative effect of earnings pressures and prevent a collapse in developed markets, which could prove to be surprisingly resilient. Against this background, some reduction in the risk premiums for investing in emerging markets seems possible.

However, the way in which emerging markets have traded together this year did much to destroy the benefits of portfolio diversification through investment in these markets. Investors will look for signs that such close trading relationships are beginning to unravel.

Asia: the partial recovery in Asian stock markets in the final quarter of 1998 can be attributed to three factors:

- Recognition that monetary policy in Organisation for Economic Co-operation and Development countries will continue to be eased to avert a financial sector collapse: this has been critical in producing a rally in global equity markets.
- Portfolio rebalancing: there has been a partial reallocation of funds to Asia, or out of cash, as investors restore their holdings to more normal levels, from the extreme underweight positions held earlier in the year.
- Recognition that the regional macroeconomic backdrop is improving. Asian economies will have suffered the sharpest stage of their contractions during 1998. Current account deficits have rebounded into surplus and currency markets are stabilising after collapsing in the previous 18 months. Interest rates are also being lowered and these factors are helping Asian companies to service their debt more easily.

These trends do not imply that any quick economic recovery for Asia is in the offing, particularly with Japan stagnating and excess capacity prompting a global slowdown. Nor do they counter the severe problems of corporate insolvency that remain endemic in Asia but, in a relative sense, the macroeconomic backdrop has improved.

It is clear that discounts in share prices relative to the 1995 recession are easily justified

There has been a shift in macroeconomic policy across emerging Asia and this is an implicit recognition that the original International Monetary Fund policy prescriptions, introduced in the early months of Asia's financial crisis, were flawed. The region, together with the IMF, is now using a more realistic and less painful blueprint for adjustment.

The shift has involved a move to more expansionary fiscal policy, easier monetary conditions and slower corporate and market restructuring. These factors have bolstered currency stability.

Latin America: Just as Asia appears to be bottoming, Latin America faces a severe regional recession. A number of developments in the second half of 1998 have jeopardised the outlook:

- The failure of Brazil to push through planned fiscal adjustments – and the resulting interest rate premiums attached to Brazilian debt in recent months – have exacted a heavy price across the region. External finance has dried up. Fiscal policy will have to be sharply tightened while monetary policy will remain restrictive to reduce the external financing requirement, as international investors keep their distance.
- The continuing weakness of commodity and oil prices, and growing expectations of a US slowdown, have exacerbated the downturn induced by Brazil's vulnerability and spread the more virulent strains of real economic contagion to all the leading regional economies.
- As severe recession looms, corporate earnings projections have begun to be downgraded: the big markets are in the midst of an earnings downgrade that is set to intensify as the extent of the regional recession becomes apparent. For Latin America an economic recession has just begun.

In Brazil, either a currency crisis or a severe cyclical – or worse, structural – economic downturn lies ahead, now that the exuberance surrounding the IMF-led financial aid package has dissipated. A currency meltdown and structural damage to the regional economy can be avoided. Critically, this requires no further signs of slippage in fiscal policy but, even with that assumption, real interest rates are set to remain high for much of the year.

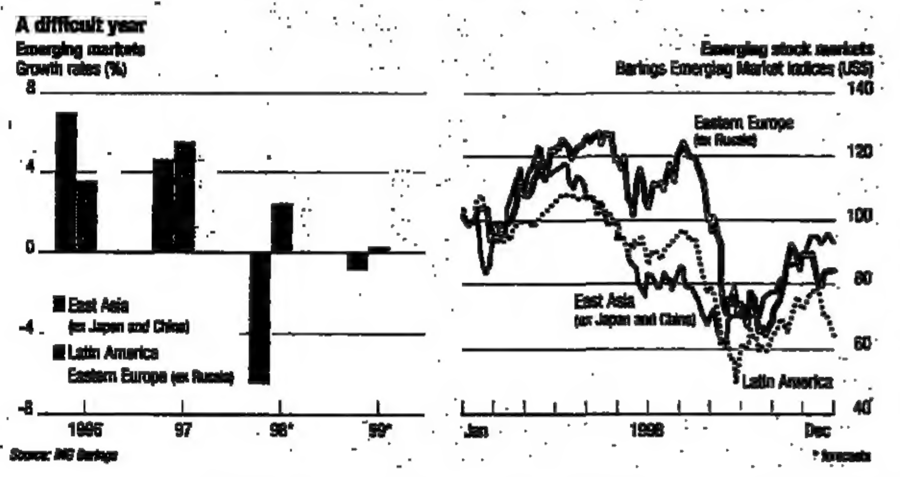
The impending descent into recession, although somewhat similar to Brazil's Tequila crisis in 1995, is unique. Most importantly, the global economic backdrop is now far weaker and more unstable. The US economy is slowing, while recent financial sector uncertainty implies a scarcity of external capital. Add to this the huge systemic risk that Brazil represents – a risk that will only gradually be dispelled – and it becomes clear that, discounts in share prices relative to the 1995 recession are easily justified.

Overall, the economic deterioration across emerging markets will remain a drag on global growth and a potential source of systemic risk for financial markets. Throughout emerging markets, the investment backdrop remains clouded by uncertainty.

Emerging markets face another difficult year, and investors' appetite for risk remains particularly fragile. A sharp acceleration in the pressures on Brazil is just one of a number of factors that could ignite the tinder box. But, despite this, there is reason to hope that some emerging markets will fare better than others next year, and that the full horrors of 1998 are unlikely to be repeated. In a difficult world, that at least offers some comfort.

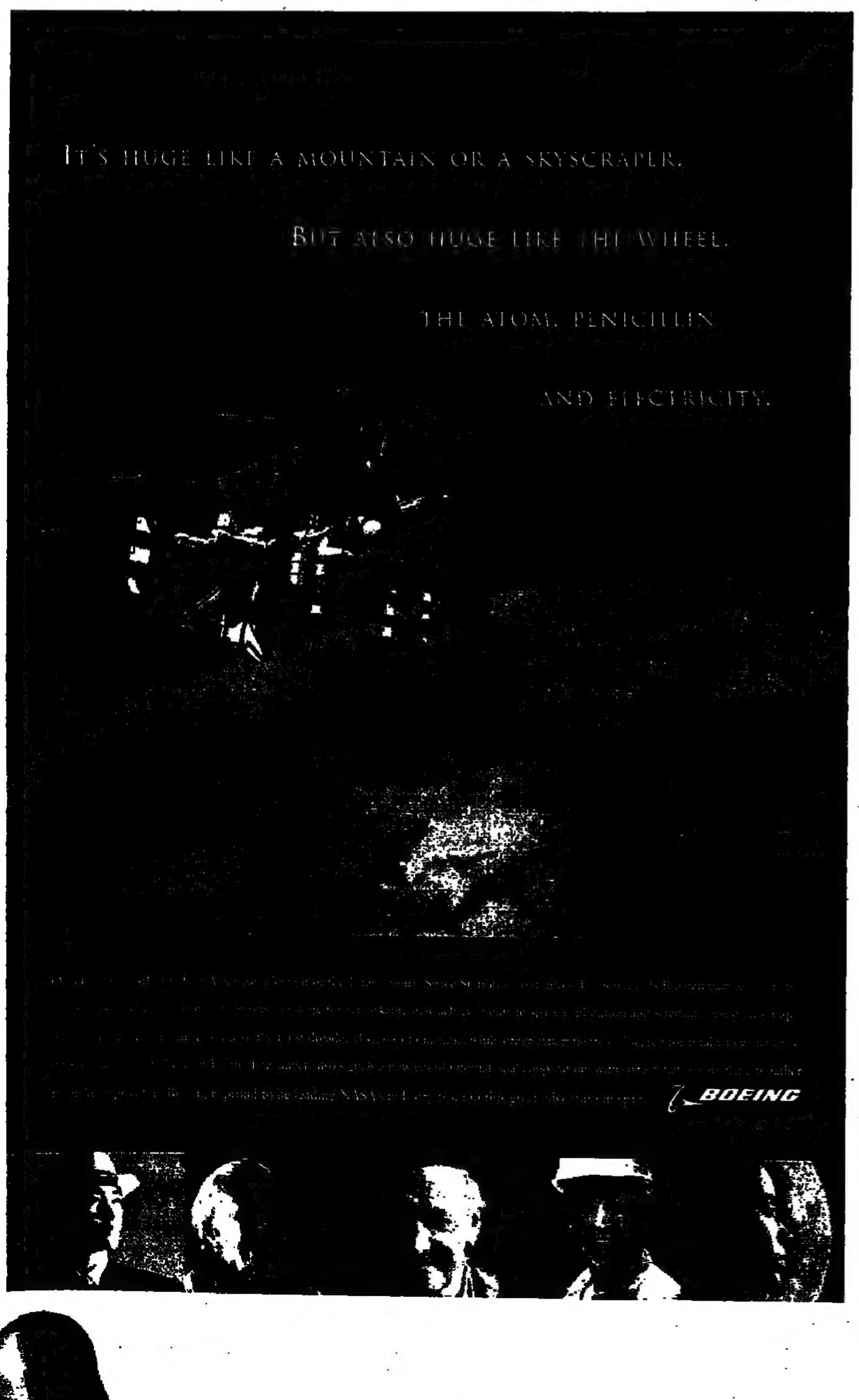
The author is director of global emerging markets strategy at ING Barings

A difficult year



Source: ING Barings

* forecasts



LETTERS TO THE EDITOR

Holistic factory design would deliver improved productivity

From Mr Bernard Eccles.

Sir, Your article, "UK productivity data 'flawed'" (November 27), reported the Institute of Fiscal Studies' view that UK levels of investment in manufacturing are significantly lower than those of our overseas competitors and that this reduces domestic productivity substantially. We would like to reinforce this view, based on experience in the UK, mainland Europe, Scandinavia and the US.

First, UK companies typically have more demanding criteria for productivity investments than those of many competitors. The US and Germany accept a payback of three to five years and Japan a period of four to seven years, whereas the UK often expects a return within one to two years.

As a result, investments in UK factories are often incremental and piecemeal, when they need to be holistic. Holistic means developing or redesigning factories for total productivity (ie, lowest cost of total employees). This approach means using the optimum technology, simplified material and product flows and effective support systems. Holistic factory design can improve productivity by between 10 per cent and 30 per cent but usually requires more than a one to two year pay-back.

Many UK-based companies that do design factories holistically are owned by overseas competitors, such as Honda, BMW, ABB and Black & Decker.

Second, investment must also extend to the right level and quality of design and production engineering. British products often require higher levels of designed-in labour input than those of our competitors in automotive, consumer durables and consumer electronics. A PA study tour to Japan showed that Japanese automotive companies, such as Honda and Toyota, employed more than five times as many production engineers than their British equivalents.

Lower UK productivity can be traced back to demanding capital investment criteria and an under-investment in key productivity drivers, such as design for low cost of manufacture and production engineering. However, a number of British companies generate higher return on capital employed than their European equivalents. So, with the right investment policy and a far-sighted view of the holistic enterprise - UK manufacturers can increase productivity and be more competitive in world markets.

Bernard Eccles,
head of manufacturing practice,
PA Consulting Group,
Cambridge Technology Centre,
Melbourn, Royston,
Herts, SG8 9DP, UK

Tight budget

From Mr Christopher Wells.

Sir, Pity Tony Blair! Having had the benefit of the Paymaster General's salary to distribute as largesse among other ministers, owing to Mr Robinson having made his services available free, he is now stuck with having to demote a minister so as to recover his salary in order to be able to pay the new Paymaster General, or do without one. But wait! Could he not persuade the departed Paymaster General to become the Paymaster to the next Paymaster General? Mr Robinson appears to have the experience to be able to do this perfectly well.

Mr C.R. Wells
Reynolds Farm
Hurst, Nr Twyford
Berkshire RG10 0RE, UK

UK pension fund managers must appreciate US equities

From Mr Richard Killingbeck.

Sir, Today I read another negative article about the state of the US economy and the level of the stock market. No doubt, as we approach the beginning of another investment year, UK asset allocators will maintain, or even increase, their negative view of US equities. When will they learn?

During the past three years, the Standard and Poor's 500 index has appreciated by 9.2 per cent, 36.4 per cent and 21.2 per cent (to December 21) adjusted to sterling. North America (excluding Canada) now represents more than 51 per cent of a typical global industry benchmark, yet an average balanced UK pension fund has less than 4 per cent of its equity exposure allocated to the region.

Surely the time must come when either one of two scenarios unfold; either US allocations are increased, or the demise of the UK balanced pension fund industry will accelerate with a corresponding acceleration of the specialist fund manager. The poetic justice of the latter, of course, is that North America leads the world in specialist fund management.

Richard W. Killingbeck,
Singer & Friedlander Investment Management Limited,
21 New Street,
London EC2M 4HR, UK

Number One Southwark Bridge, London SE1 9HL

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ODD JOBS FAKEBUSTERS

Sold a line

In China counterfeiting has extended beyond manufactured goods to spawn a network of bogus copyright investigators and enforcers. **James Harding** reports

Counterfeiting in China has become a convoluted business. Not only are there cheap copies of the full range of manufactured goods, from Polo mints to Duracell batteries to Motorola mobile phones, but even the authenticity of the information and assistance offered in the fight against fakes can be suspect.

"Individuals have made use of the people willing to pay for information," says Parker Lake at Pinkerton in Shanghai, the US investigation company helping some of the world's biggest brand-owners enforce their intellectual property rights in China. "The results [of a tip-off] can range from very successful to zero ... The informant is in a position to fly by night."

As China's counterfeiters have become more sophisticated, they have spawned a second-generation industry of anti-counterfeit enforcers – a growing band of informants, private investigators, factory raiders and legal advisers. Working with local government officers and foreign brand managers, the bona fide enforcers have begun to stamp on, if not out, the manufacturers of fake goods.

But at the margins of this emerging business of brand protection – as in the fringes of the manufacturing industry itself – there are people selling wares that are not the genuine article.

Shen Lin, head of the Shanghai office of the government-authorised consultancy China Sinda Intellectual Property, says: "Roughly 20 per cent of the information we are given is false."

Sometimes when individuals call in with reports of factories producing fake goods, the story turns out to be pure fabrication; more often, the informant has exaggerated the scale or the nature of the find. The information leads to a few hundred boxes of counterfeit soap, rather than the few hundred thousand promised.

"It is invariably not the whole truth and it is not what you want to hear. They will tell you where they have seen counterfeit products but they will not tell you the whereabouts of the factory where they are making it," says Andrew Williams, marketing manager in China for Castrol, the lubricant group.

The more reputable specialists in intellectual property enforcement tend not to pay for information until they have proved its validity and value. Pinkerton, for example, says it prefers to use its own network of people "mostly for the reason of reliability".

The credulous foreign manufacturer, though, is vulnerable to the occasional scam. One deception involves contacting the owner of an international brand-name (preferably one that does not have offices or on-the-ground experience in mainland China), informing the company of a factory copying its goods and offering to get it shut down.

"The manager in London or New York wants to be seen to be doing something about counterfeiting. He will pay for a report saying a factory has been found or a factory has been raided, even if he cannot prove it," says one anti-counterfeit enforcer.

The purported raid on the alleged fake-producing factory would typically take place in a provincial backwater, and without hiring a comparatively expensive western agency to verify the bust "the foreign brand-owner will never know what really happened".

Ironically, counterfeiters also pay informants to tell them of impending crackdowns – but they, too, cannot always count on the reliability of the warnings.

In Yiwu, a drab town of 600,000 people that has become the capital of the counterfeit industry in China, one man standing outside the Small Commodities Market, which serves as a distribution hub for fakes, offered a local judgment on informants. "People who give information are like spies. They should be treated like spies. Here, we all eat from the same rice bowl."

The volume of business done at the trading halls in Yiwu alone was estimated at RMB15.2bn ($2bn) last year. Not surprisingly, foreign intellectual property owners, which see the reputation of their brand and market share undermined by the fakes, are increasingly willing to pay for "information".

This has created a parallel industry. "There is a network of professional informants," says Luke Minford at Rouse & Co in Shanghai, specialists in intellectual property protection. "They can earn a lot of money from passing on information."

Pirate investigators: Police destroy thousands of counterfeit CDs and videos – but bogus informents are flourishing AP

Indeed, China even boasts a celebrity whistle-blower. Wang Hai, a shy but single-minded young man, has made a name, and a small fortune, for himself by buying fake goods from department stores all over China and then claiming double compensation for the cost of the purchase, as Chinese law demands, when he proved the goods were not the real thing. The Chinese state media has dubbed him the "anti-fake goods hero".

The importance of informants is a telling indication of the dual development of the Chinese counterfeit industry and the emerging business to contain it.

As the US became acutely aware of the intellectual piracy problem in China in the first half of the 1990s, Washington looked to Beijing to introduce laws and regulations to control and punish counterfeiters. But, in the last few years, foreign companies with brands to protect have shifted their focus from the state of the law to the nature of hands-on enforcement.

Some international brand-holders with substantial piracy problems have established in-house anti-counterfeit units. Other multinationals have turned to counterfeit specialists to work with the Chinese government bureaux, particularly the Administration for Industry and Commerce, to crack down on the copiers of their products.

Some multinationals have had real success in clamping down on pirate producers: American Standard, the largest foreign manufacturer of toilets for the Chinese markets, says it has seen significant progress this year against the producers of counterfeit bathroom products carrying its name.

To have a decent prospect of success in their battle against fakery, though, the first step for foreign brand-holders is to find a genuine source and an authentic provider of anti-counterfeit services. According to Mr Minford: "The key in China is to get reliable information ... that is where this whole industry has grown up from."

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Wednesday December 30 1998

Waiting for Japan

With gross domestic product down almost 3 per cent, 1998 has been a dreadful year for the Japanese economy. Yet the answer to those asking whether a turnaround is on the way is No. Between September and December alone, the International Monetary Fund reduced its forecast for 1999 from growth of 0.5 per cent to a decline of 0.5 per cent. The outcome could be far worse.

At least five explanations can be given for this depressing prognosis.

First, companies and households are beginning to adjust to the realisation that the era of rapid growth is over. But this means that businesses have more capital than they need, while households possess less wealth than they want. A study by the Japan Center for Economic Research concludes that the share of private investment in plant and equipment in GDP could fall from 16 in 1997 to 11 per cent in 2003. Meanwhile, worried households are set to save still more than before. The reduced desire of companies to invest and increased desire of households to save are the twin blades of Japan's recessionary scissors.

Second, with private investment and consumption so weak, the only sources of demand are the public and external sectors. Yet far less has been done to secure these than many suppose: broad money has been growing at a mere 4 per cent a year since 1992 (including in 1998); the yen is some 13 per cent higher against the dollar than at the beginning of the year; and, according to the Organisation for Economic Co-operation and Development, the cyclically adjusted general government fiscal deficit, at 4.1 per cent of GDP this year, is no higher than in 1996.

Public debt

Third, even if the government were to wish to adopt a more aggressively expansionary fiscal policy, it must also worry about the rise in public sector indebtedness. Yields on 10-year government bonds have more than doubled, from 0.8 per cent to 1.8 per cent since November. Given a falling price level, this means real interest rates of 2½-3 per cent, enough to ensure explosive growth of the public debt burden if the economy continues to stagnate.

Import compression

Fourth, if the yen were to fall sharply, the international environment would still be highly unfavourable to a Japanese export drive, not least because 40 per cent of its exports used to go to emerging Asia. True, the current account balance has more than doubled, as a share of GDP, from 1.4 per cent in 1996 and 2.3 per cent in 1997, to 3.2 per cent in 1998. In 1998, the improvement in the external balance was also a helpful offset to the sharp contraction in domestic demand. But what has driven this improvement is only import compression, not export expansion.

Finally, notwithstanding the belated recognition of the need for public refinancing of the banking system, the present plan is inadequate. This is partly because undercapitalised, but solvent, banks have a very limited incentive to take the money on offer. It is also because the authorities still underestimate the scale of the problem. But the biggest difficulty is that refinance of the banking system is a necessary condition for renewed growth, but not a sufficient one. There must first be recovery in profitable borrowing opportunities.

As time has passed, measures needed to arrest Japan's decline have become more radical and the domestic and international environment more unfavourable. What is needed, by now, is a systematic and decisive policy comprising a very large fiscal deficit financed by borrowing from the Bank of Japan, a much weaker yen, and phased economic liberalisation.

The authorities still think they can tinker their way, piecemeal, out of the crisis. They cannot. Only when they realise this will strong recovery become a prospect, not a hope.

An EU chance to lead in trade

With the launch of the euro, enlargement and much-needed institutional reform on its agenda, the European Union might seem to have enough on its plate to occupy it until well into the new millennium. These challenges create an obvious temptation to dwell on priorities close to home. Yet there has rarely been a moment when it was more important for the EU to look beyond its own borders and play a fuller and more active international role.

The area where constructive EU initiative is most urgently needed, and most likely to yield rewards, is world trade. The near-term fate of the global economy depends crucially on keeping markets open – above all, in the rich countries which are currently the only source of growth. Only if they are ready to absorb substantially increased exports from troubled emerging economies will the latter enjoy a sustainable recovery.

To date, the EU has avoided a rash of import barriers. But that will become harder if a continuing rise in the US trade deficit stokes protectionist pressures there, which could swiftly spread to Europe. Uncertainties about how successfully Bill Clinton can keep such forces in check have been greatly increased by the impact of impeachment on his political authority at home.

But questions about the future US role also run much deeper. Its contribution as principal architect of the multilateral trade system since the second world war grew out of its strategic commitment to containing communism worldwide. The end of the cold war has diminished both the perceived need among US policymakers to continue exercising that leadership, and the political support in the country at large necessary to sustain it.

Economic superpower

Neither geo-political circumstances, nor its own institutional make-up, permit the EU to assume the role traditionally played by the US, even if it wanted to. But as the world's only other economic superpower, the EU has a clear interest and an obligation to shoulder more responsibility for maintaining open international trade. How should it go about doing so?

Its first priority should be to fulfil its commitments in the World Trade Organisation scrupulously. As well as implementing the Uruguay Round agreement, it must uphold the rule of law by complying – much more rigorously than in the case of bananas – with the letter of WTO disputes judgments.

Flawed legislation

Second, the EU must resist demands for protection, notably in the form of anti-dumping. It must also avoid poorly thought-out measures which needlessly irritate the US and other trade partners. Particular care is required when drafting single market legislation: all too often, flawed attempts to bridge internal EU differences have created external trade frictions.

Finally, and most important, the EU must push hard for further multilateral trade liberalisation, the success of which offers the best safeguard against protectionism. Sir Leon Brittan, the trade commissioner, wants a comprehensive new round of talks. But so far, his calls have generated little enthusiasm.

They may only do so if the EU shows it is genuinely willing to lower its own biggest trade barriers – above all, in agriculture. A firm commitment to achieving real progress in liberalising this sector would be a big contribution to creating a fairer and more open world trade system, increasing the welfare of the EU's citizens and enhancing its credibility with trade partners.

Such an idea may be dismissed as unrealistic. But the EU will only carry political – as well as economic – weight in the world if it defines its common interests in terms of internationally shared goals.

If it cannot show such leadership in trade, the external relations field where its members have worked together longest and most successfully, what chance is there of them speaking with one voice on foreign policy and security?

IT WAS THE YEAR WHEN . . . THE KOHL ERA ENDED

Goodbye to all that

Ralph Atkins asks whether the election of a left-of-centre government and the start of the Berlin republic signals a more assertive Germany

1998 NINETEEN NINETY EIGHT Has Joschka Fischer, Germany's Green foreign minister, broken with the zeitgeist? For years, the former street revolutionary wore black T-shirts under his jacket. Since taking office at the end of October, he has invariably worn a tie.

While continuity and conservatism may be the fashion at the foreign ministry, Gerhard Schröder, the new Social Democrat chancellor whose neckwear sometimes slips to half-mast, has ushered in an unstuffy style of government. After 16 years of Helmut Kohl, the Germany Mr Schröder seeks to create is more self-confident and less formal, conscious of but not hamstrung by its history and determined to pursue its own agenda.

The government that in a few months will begin the move to Berlin – including to buildings once occupied by Hitler's ministers – will not be led by Mr Kohl, a Christian conservative whose war memories are firmly etched. Instead its chancellor is a left-of-centre lawyer who in 1978 represented the terrorist Horst Mahler, who omitted "so help me God" from his official oath and who, at 54, is too young to remember the Nazis.

In his government declaration – the equivalent of a US inauguration speech – Mr Schröder spoke of a "grown-up, self-confident" country that for the first time since the second world war had voted a government out of office; "a self-confidence of a grown-up nation that doesn't have to feel superior or inferior to anyone, that accepts its history and responsibility – but is forward looking".

It is a Social Democrat-led coalition government of a "new" political centre that has brought the environmentalist, pacifist Greens into federal office for the first time. It is looking for alternative answers to mass unemployment and to the country's 19 atomic power stations. And it is looking to bring "social justice" to a reunited Germany where the initial euphoria over the liberation of the east has given way to pessimism and demands for greater economic equality.

It is also a government that takes a more questioning stance towards the European Union, where it holds the presidency in the first six months of 1999. That does not mean a halt to economic and political integration – the opposite is the case – but ensuring that the EU functions as a community and international economic powerhouse, at an acceptable cost to the German taxpayer.

Does, then, the start of the Berlin republic signal a more assertive or energetic Germany? A glance at the country's corporate sector suggests the answer is 'Yes'. Years of industrial restructuring and reorientation towards the demands of global markets led to the merger in May of Daimler-Benz and Chrysler.

Then, last month, Deutsche Bank swooped to buy Bankers Trust, the eighth-largest US bank. Deutsche Bank has also signalled a break with the traditional cosy relationship between banks and industry by spinning off its DM40bn ($23.9bn) industrial holdings into separate companies, possibly as a prelude to eventual disposals. Meanwhile, the Viag power-based conglomerate is merging with Alusuisse-Lonza of Switzerland; the Hoechst pharmaceuticals group is teaming up with Rhône-Poulenc of France. The message is that Germany industry can act fast to remain world-beating.

Can the government be as bold? For all the heralding of change, the omens are not good. The main task it has set itself is combating an unemployment total of 4m (about 10 per cent of the workforce). Its response is centred on building a consensus between labour, employers and the state of the sort that fashioned Germany's post-war economic recovery. Mr Schröder's "alliance for jobs" is aimed, deliberately, at rectifying the damage his advisers believe was inflicted even by Mr Kohl's modest achievements in reforming generous sick pay and employment protection laws.

But Mr Kohl tried an "alliance for jobs" unsuccessfully and it is arguable whether, even in Germany, a consensus approach is possible in 1999.

For business, the "alliance for jobs" has to focus on containing costs, lowering taxes and continuing wage moderation. The unions want a redistribution of working opportunities in Germany's highly capital-intensive economy through limits on overtime or reductions in maximum working hours.

The government's priorities also differ in significant respects to those of business. The "socially just" tax reform plans of Oskar Lafontaine, finance minister, are calculated to help average households by cutting basic rate income tax and raising child allowances – with industry largely footing the bill through reduced tax breaks.

> **The result is a pragmatic approach to Europe from a new generation of political leaders**

Professor Meinhard Miegel, director of the Bonn institute for economic and social research, argues that there remains strong social resistance to the creation of lower-paid, lower status jobs of the sort that have cut unemployment in the US. "The alliance for jobs is about distributing work – distribution, distribution, distribution," he says. "It is not about value creation. It is not an economic question. We are not going the way that would create more dynamic growth – because that would be socially unacceptable."

Where the new German government has been more determined, and even confrontational, is in European policy. Mr Schröder and Mr Lafontaine believe the introduction of the Euro will force the formation of economic and financial policies – as well as monetary policy – at European level. That means, above all, a European pact on job creation with binding and verifiable goals.

For some in Europe the talk in Bonn and Paris of tax harmonisation and greater use of majority voting – as opposed to the principle of unanimity – has been a harsh reminder of the pace at which the debate is moving. But Mr Lafontaine and Mr Schröder find the UK's protests hard to understand. "In Germany it was difficult to give up the D-Mark," says Mr Lafontaine. "We have had our own experience in trying to convince people."

Mr Schröder argues that Germany is part of an increasingly integrated Europe, not through compulsion but by choice. "I belong to those for whom Europe is a perfectly natural thing," he says. "By that I mean a single Europe. That is something I want. I am a German, but also a European."

Germany's history still reinforces that European identity. But it is a different calculation to that of Mr Kohl, or Hans-Dietrich Genscher, foreign minister between 1974 and 1992, who co-authored Germany's final settlement with the victors of the 1939-45 war.

Mr Schröder's election has, to an extent, proved cathartic. Martin Walser, the novelist, has sparked controversy by suggesting Germans should no longer be preoccupied by the events of the 1930s and 1940s and by complaining of the media's "constant presentation of our shame".

Michael Naumann, the former publisher who is Mr Schröder's minister for cultural affairs, is opposing plans for a giant Holocaust memorial near the Brandenburg Gate in the centre of Berlin. The proposal for a field of stone slabs designed by Peter Eisenmann, the New York architect – which Mr Naumann criticises as being overwhelming – is likely to be replaced by a less brutal exhibition or depository of Holocaust evidence.

Germany's reflections on the past are far from extinguished, however. Mr Fischer talks about a "collective memory of our neighbours" – which could include potential new members of the EU – that obliges restraint in the extent to which Germany pursues national interests. Martin Mantzke, editor at the German foreign policy association, argues: "No reasonable German politician would ever talk about Germany first – but they would certainly not talk about Germany last." It requires a stress on international solidarity; German official support for this month's US and UK airstrikes on Iraq was loyal, despite private misgivings about the moral and strategic objectives.

The result is a pragmatic approach to Europe from a new generation of political leaders. In contrast with Mr Kohl, the government does not see peace within an integrated Europe or nationalist wars as the only alternatives. As one European policy strategist in Bonn says: "We have to make the European Union worthwhile [for Germans]."

Mr Schröder recognises the associations created by the move to Berlin. "Sometimes 'Berlin' still sounds too authoritarian-Prussian, too centralist," he admitted in his government declaration. "Against that, we are setting our – completely unaggressive – vision of a Republic of the New Centre. This New Centre excludes nobody. It stands for solidarity and innovation, for enterprise and a sense of citizenship, for ecological responsibility and a political leadership that seizes chances. Symbolically, this New Centre is taking shape in Berlin – in the middle of Germany and the middle of Europe."

Thus, his pursuit of a distinct German agenda is hedged by a recognition of geography and politics, as well as history. In the centre of Europe it is surrounded by potential allies – or partners that could quickly form coalitions against Germany's interests. That requires a cautious stance by the new Berlin republic.

OBSERVER

No Oskar night in Brussels

The euro, it seems, is heading for a safe birth. The most dangerous man in Europe – alias German finance minister Oskar Lafontaine – has decided to skip the single currency's celebratory launch.

Finance ministers from across the euro-zone gather in Brussels tomorrow night for the historic announcement of euro exchange rates. But Lafontaine will not be among them: he is relaxing on holiday and doesn't plan to drop in for a quick off-the-cuff speech or even a glass of Riesling.

Lafontaine's absence is sure to drain any colour from what promises to be a fairly sombre gathering. His place is being taken by former businessman turned German economics minister Werner Müller, an amiable enough sort of chap but without a track record of mischief-making.

Lafontaine, after all, has distinguished himself since entering office in October by taking a close interest in all things European. In just a few short weeks the fun-loving finance minister managed to lay out his stall with calls for tax *harmonisation – sorry,* co-ordination – lower interest rates and a cut in Bonn's net contribution to Brussels.

Still, looking on the bright side Lafontaine's holiday could be good news for Germany and its new monetary neighbours. He's sure to come back refreshed and simply bursting with good ideas.

Barking mad

Howls of protest in Belgrade as the cash-strapped city authorities slap a tax on dogs. Mobile telephones and guns have already been targeted by revenue-raising council members; now everything from the fiercest Rottweiler to the furryest lapdog will be subject to a new canine levy.

The annual tax on guard dogs has been set at a concessionary 75 dinars ($7.50), while pedigree pooches will cost twice as much. The rest are to be charged at a rabid 220 dinars – a huge sum in a city where pensions are in arrears by several months and the average monthly wage is less than $100.

A Serb refugee who runs Belgrade's only asylum for the doggy equivalent is threatening to unleash all his 500 charges in protest. Dog owners say they too will take to the streets with their pets. But Spasoje Krunic, head of the city council, is standing firm: he can be seen daily, along with other top officials, walking their canine companions – all with outstanding pedigrees.

No immunity

Slovak embassies have been in uproar this year with ambassadors coming and going faster than diplomatic bags. Two-thirds of the country's ambassadors were recalled in March as prime minister Vladimir Meciar hurriedly filled embassies with political supporters just before an election he was bound to lose. The new government, which took office at the end of October, immediately sacked Meciar's nominees and is in the process of appointing its supporters.

But one ambassador is proving particularly hard to get rid off. Zdenka Kramplova, the former foreign minister, was told to return to Slovakia by November 18 after less than a month as ambassador to Canada. She has now ignored three deadlines to return – and her diplomatic passport has been cancelled.

New foreign minister Eduard Kukan also wants to sack her from the foreign ministry – when she can be found to receive her notice. But the rogue ambassador says she will not return until what she describes as a malicious campaign against her has been called off. How's that for diplomacy?

Turin crowd

Those Italian anarchists will stop at nothing. Their latest victim is baby Jesus, kidnapped from a nativity scene set up by Turin city council. A note sent to the La Repubblica newspaper demands the release of one Silvano Pellasero, arrested last spring after an alleged attempt to sabotage a high-speed train.

"Free Silvano now or Jesus is dead!" says the anonymous note, sent with a photo of the statue clutching two Sunday newspapers in its wooden hands. But the artist responsible for building the nativity display reckons that such bully-boy tactics should be ignored. "Sure, they've taken a symbol," says artist Emanuele Luzzati. "But we're only talking about a piece of wood."

Title fight

Fancy a new image for the New Year? Observer has just received a shopping list of honours, awards, noble, military and ecclesiastical ranks – courtesy of an organisation calling itself the Holy Roman Empire.

Based in Paphos, Cyprus, and run by Count Lothar-Johann van der Hoort, it has a title to suit every occasion. What's more, there's a 50 per cent discount in force until January 20. Starting with the "superior status" stuff, you can turn yourself into an archduke, a grand duke, a marquis, baron or simple knight for little more than $150. The rank of major-general is a snip at $125, while you can be installed as a cardinal for only a few dollars more.

Observer isn't quite sure what to make of it all – but as the Count says all profits go to charity, let's be charitable.

Financial Times 100 years ago

Shoddy German Goods

We have often contended when discussing the matter of foreign competition in trade that it is not to Germany, but to the United States, that British manufacturers should pay the most attention since, while Germany excels in the manufacture of cheap goods with a high finish, the United States are likely to compete with our manufacturers in quality as well as price and finish. It is interesting, therefore, to note the very frank opinion on the subject of German trade expressed by one American Consul on the relations of the United States with European countries. "The ground that Germany has won in the foreign markets cannot long be retained, owing to the poor material and workmanship of some of their products."

50 years ago

French African Gold

Paris, Dec. 29. Following a decision of the French Government, producers of gold mined in French Africa are henceforth authorised to sell one half of their output on the Paris free market, and the other half in foreign countries under an export licence system.

FINANCIAL TIMES
WEDNESDAY DECEMBER 30 1998

THE LEX COLUMN

French defence

One thing France fears more than losing control is being left out. Hence the government's belated decision to allow Thomson-CSF to pursue a deal with Marconi Electronics, the defence unit of the UK's General Electric Company. Hence, too, its willingness to see its 40 per cent stake in the French defence group fall below 10 per cent following any merger.

Even so, this may be too little, too late. A merger between Thomson and Marconi, Europe's top two defence electronics companies, theoretically offers great scope for value creation – probably worth over $3bn in present value terms. However, stripping out the duplication in practice is another matter, particularly if there are political constraints on cutting costs at low-margin Thomson. Not surprisingly, GEC would prefer Thomson's total privatisation.

Disagreements over Marconi's value are also a problem. Putting Marconi's forecast £430m 1999 operating profits on a multiple of 13-14 times, a little higher than Raytheon of the US, would produce a value of £5.6bn-£6bn ($9.4bn-$10bn). Given Thomson's market value of $6.6bn, that suggests ownership should be split 60:40 in the UK company's favour – which would be hard to square with Gallic pride.

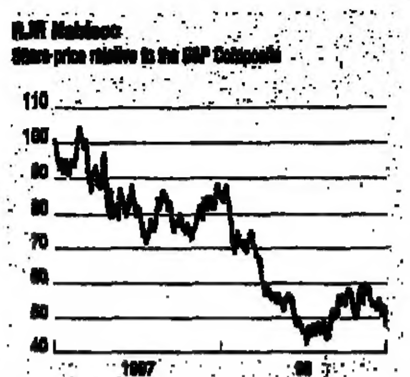
The ratio could, of course, be evened up by Thomson's raising new equity or Marconi's being loaded up with debt. But the French company cannot drive too hard a bargain: Marconi is flirting with both British Aerospace and Lockheed Martin of the US; Thomson's alternative prospects are not so bright.

RJR Nabisco

Two years after his first, unsuccessful attempt to split up RJR Nabisco, Carl Icahn is back. The corporate raider has spent $477m buying a 5.6 per cent stake in the company and says he will press for a demerger of Nabisco foods from RJ Reynolds tobacco at May's annual meeting.

There is undoubtedly value to be unlocked – as Steven Goldstone, RJR chairman, concedes. The shares are currently trading at around $29. But its 80.5 per cent stake in separately quoted Nabisco is worth over $25 a share on its own. Putting the combined US and international tobacco business on 10 times 1999 earnings – a conservative discount to

RJR Nabisco
Share price relative to the S&P Composite



Source: Datastream/ICV

Philip Morris's 16 times – produces another $11 a share.

Where Mr Icahn and Mr Goldstone part company is on how best to release this value. Mr Icahn argues that, following the tobacco settlement with US states, the legal arguments for delaying a demerger have disappeared. Mr Goldstone is not so sure, especially since plenty of individual lawsuits are still ongoing. In any case, his first priority is to fix RJR's ailing international tobacco division, ideally by pairing it with a stronger rival such as Britain's BAT Industries. Since analysts estimate that an outright sale of the unit could add another $6-$7 a share to current break-up calculations, Mr Goldstone should be given a bit more time to pursue his plan. But it is good Mr Icahn is breathing down his neck.

Italian pay-television

So Rupert Murdoch has finally pulled off an Italian media deal. But the media mogul's agreement to acquire up to 80 per cent of Stream, the loss-making pay-television outfit, from Telecom Italia is not unblemished. For a start, Mr Murdoch is taking on a larger slice than the minority stake he originally bargained on. Then there is the question of whether the gamble will pay off.

The initial payment, $121m for the stake, is not the issue. Much higher costs will be incurred in acquiring pay-TV rights in soccer and films. Without those, Stream will not be able to establish itself as a credible competitor to Telepiù, the existing pay-TV network. Indeed, there is considerable doubt over whether Mr Murdoch will be able to assemble these rights at all since Telepiù has signed exclusive six-year deals with seven leading football clubs and sewn up film rights until 2003.

What is clear, though, is that success will be extremely expensive – the Murdoch camp is already threatening to bid $2.5bn over five years for the soccer rights. And a vicious bidding war could make the economics of pay-TV unattractive for both camps.

True, competition could spur the market's growth. But that will only be because of increased marketing spending and keener pricing. No wonder Franco Bernabe, Telecom Italia's new boss, is cutting his losses.

Marks and Spencer

The UK retail industry rumour that Marks and Spencer would start its sale before Christmas proved unfounded, but the one-time high street favourite produced an equally dramatic seasonal surprise. For the first time in recent memory, it has invested in a nationwide television advertising campaign.

There is nothing remarkable about the 30-second commercials per se, but the very fact that M&S now sees the need for high profile promotions testifies to the fact that it can no longer rely on its once-mighty brand to pull shoppers in off the sidewalks

Peter Salsbury, the new chief executive, may be trying to indicate that the group is becoming less inward-looking and learning how to communicate with its customers. He has, for example, correctly diagnosed the problem that many of M&S's loyal underwear buyers would never think of looking in its stores for their home furnishings.

But simply telling customers what M&S has to offer is not enough. If the campaign is to have a lasting benefit, the customers that are persuaded back into its stores will have to be pleasantly surprised by what they find. The marketing strategy may have changed dramatically, but M&S's products, prices and stores have not. Mr Salsbury is right to be challenging M&S's conventional wisdom, but he needs to follow through with more far-reaching changes on the ground.

Japan's recession leaves homeless out in the cold

Osaka is struggling to cope with the number of people living rough on its streets, reports Alexandra Harney

At 6pm every evening in a neighbourhood in Osaka, Japan's second largest city, an entire community is uprooted. Gathering duffel bags, umbrellas and backpacks, clutching canned coffee and bags of potato chips, hundreds of men queue for hours for a ticket that gives them a futon in a tent and a packet of biscuits for the night.

These are the homeless of Airin, a square mile of Japan's largest industrial city lined with abandoned cars, overturned shopping carts and discarded bicycles. It contains Japan's largest homeless population – conservatively estimated at 1,200 people.

They represent the darkest side of the Japanese recession. Japan's prolonged economic slump has driven the unemployment rate up to 4.4 per cent, the highest in the post-war period, and has forced thousands of manufacturing and construction workers out of their jobs. In the Kinki region, which includes Osaka, the jobless rate reached 5.2 per cent last quarter. Government stimulus packages worth thousands of billions of yen have had little, if any, impact.

The authorities appear incapable of coping with the crisis. In a scene that has been repeated countless times in homeless areas in Tokyo, the Osaka government this week forcibly removed homeless people from the Airin area to satisfy residents' complaints about the smell.

"Not a single one of the people here is working. Just look at their faces. Would you hire them?" says a man standing at a brightly lit bank of vending machines next to the line of homeless people awaiting their shelter tickets. Behind him, men are picking used glass jars out of a recycling bin to get a drink of water.

According to a study commissioned by the Osaka city government, there were 8,660 homeless people living within the city limits in August. While the largest group is concentrated in the Airin area, the others are crowded into parks, train stations, and on street corners around the city. Some of the homeless are registered as day labourers, which makes them eligible for contract work such as building houses, surveying land, and doing simple carpentry. But recession has reduced demand for casual labour.

"The good people are all taken, and the older people naturally lose out," says Yutaka Izumi, the Osaka official in charge of the city's homeless policy.

The central government's welfare policy has been of little help. City officials admit the criteria for receiving welfare benefits vary by region and require examinations many homeless people are reluctant to endure. Worse, the government has been cutting its welfare spending.

The official shelter system is also relatively underdeveloped. Tokyo, where a study this summer found the number of homeless had ballooned from 600 people to 4,300 in a year, has only two shelters which open for four months during the winter with capacity for only 300 people.

City officials argue that Japan's inability to respond to the increase in its homeless population is not simply one of bureaucratic oversight but the result of public opposition, budgetary difficulties and official disputes.

"There are several ways to look at the homeless problem. Some people see the homeless as wretched, pitiful, and they want us to help them. But other people, who work so hard to support their families and pay their taxes, ask why we have to take their taxes to help the homeless people, who are not working and just lying around," says Mr Izumi.

Toshiaki Mori, a city official who has been studying homeless policies in the US and Europe, says: "Japan's homeless are not like those in America or Europe, where they have families. Here, they are single and male. But the scale of the problem in Osaka has come to a point where something must be done."

Yesterday, the Tokyo government said it had decided to postpone its campaign to build a support centre for the homeless until next year because of local opposition.

The recession has prompted officials from five of Japan's largest metropolitan areas, including Tokyo, Osaka and Yokohama, to appeal to the central government for additional funding. But in the current fiscal environment such additional spending seems highly unlikely. Disputes over which ministry has authority over the problem have also slowed the response. For the country's homeless, it promises to be a long winter.

The homeless and their supporters burn rubbish in the street as they confront helmeted municipal workers in Osaka earlier this week. Picture: AP

CONTENTS

Blood and sand: Spanish bullfighter Jaime Diaz, known as El Cordobes, was gored by a wounded bull yesterday at a bullring in Cali, Colombia. He is recovering in hospital in the capital, Bogota. Picture: AP

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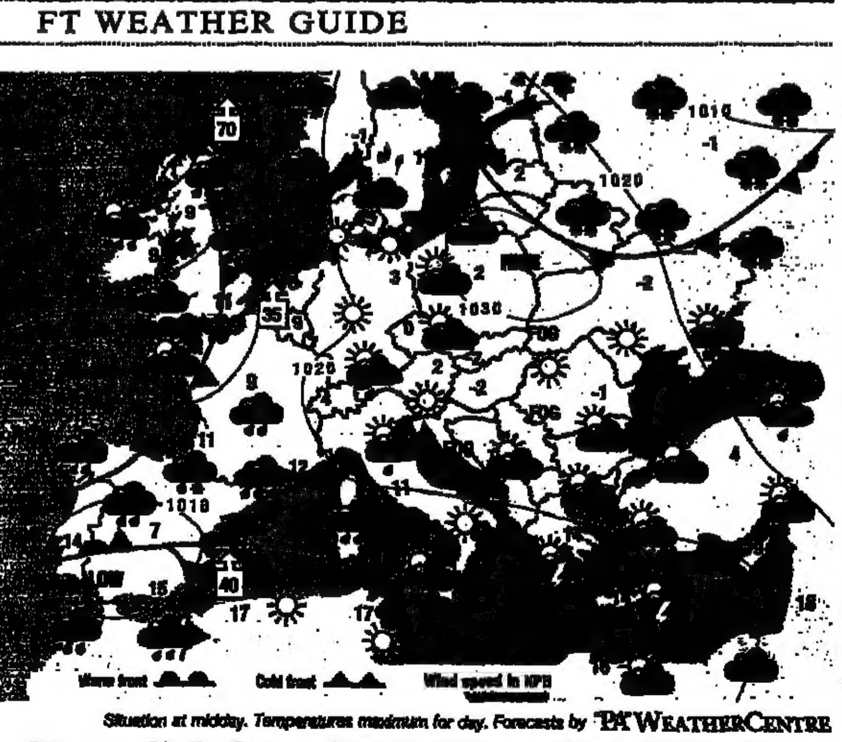
FT WEATHER GUIDE

Europe today

Scandinavia will be mostly dry but there will be snow in north and western Norway. North-eastern Europe will have snow showers. High pressure over central and eastern Europe will give sunshine in places, although fog may linger in sheltered locations. The Iberian Peninsula will be unsettled owing to a low pressure system, with heavy, thundery rain likely in southern Spain. Italy will be fine, with showers confined to the north. The eastern Mediterranean will have showers and longer periods of rain, some accompanied by thunder.

Five-day forecast

North-eastern Europe will see snow flurries and icy patches. Central and eastern Europe will remain dry over the weekend but there will be a continued risk of fog. Western Europe will continue unsettled with spells of rain, although Sunday should be mostly dry.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	28
Accra	Fair	31
Algiers	Fair	16
Amsterdam	Fair	6
Athens	Thunder	14
Atlanta	Fair	5
B. Aires	Fair	32
B.ham	Shower	10
Bangkok	Fair	33
Barcelona	Rain	14
Beijing	Fair	2
Belfast	Shower	6
Belgrade	Fair	1
Berlin	Fair	3
Bermuda	Fair	24
Bogota	Cloudy	18
Bombay	Sun	32
Brussels	Fair	9
Budapest	Fair	-2
C.hagen	Fair	5
Cairo	Fair	19
Caracas	Cloudy	30
Cardiff	Shower	9
Casablanca	Thunder	15
Chicago	Fair	-9
Cologne	Sun	9
Dakar	Fair	25
Dallas	Fair	10
Delhi	Sun	20
Dubai	Sun	28
Dublin	Shower	9
Dubrovnik	Sun	11
Edinburgh	Rain	8
Faro	Shower	14
Frankfurt	Fair	7
Geneva	Fair	4
Gibraltar	Shower	16
Glasgow	Shower	9
Hamburg	Fair	5
Helsinki	Cloudy	-4
Hong Kong	Fair	21
Honolulu	Fair	27
Istanbul	Fair	7
Jakarta	Fair	31
Jersey	Shower	11
Johannesburg	Cloudy	24
Karachi	Sun	28
Kuwait	Fair	24
L. Angeles	Sun	24
Las Palmas	Fair	20
Lima	Cloudy	25
Lisbon	Shower	14
London	Shower	11
Lux.bourg	Fair	7
Lyon	Shower	9
Madeira	Shower	18
Madrid	Rain	7
Majorca	Shower	15
Malta	Fair	18
Manchester	Shower	10
Manila	Fair	29
Melbourne	Sun	26
Mexico City	Fair	24
Miami	Fair	24
Milan	Cloudy	5
Montreal	Fair	-7
Moscow	Snow	-1
Munich	Fair	5
Nairobi	Fair	27
Naples	Sun	13
Nassau	Fair	27
New York	Fair	2
Nice	Shower	12
Nicosia	Thunder	19
Oslo	Cloudy	-1
Paris	Shower	9
Perth	Sun	33
Prague	Fair	0
Rangoon	Sun	34
Reykjavik	Shower	4
Rio	Fair	30
Rome	Fair	11
S. Frsco	Fair	18
Seoul	Sun	2
Singapore	Thunder	29
Stockholm	Fair	1
Strasbourg	Fair	7
Sydney	Fair	26
Tangier	Rain	14
Tel Aviv	Shower	18
Tokyo	Fair	11
Toronto	Fair	-14
Vancouver	Rain	10
Venice	Fair	5
Vienna	Fair	2
Warsaw	Cloudy	2
Washington	Fair	2
Wellington	Sun	20
Winnipeg	Fair	-19
Zurich	Cloudy	4

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

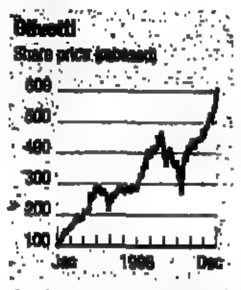
Air France ready to take off

Jean-Cyril Spinetta (left), the Air France chairman, expects 1999 to be a turning point for the French national carrier. Along with the airline's long-awaited partial privatisation, 1999 should be the year the company decides which of its two US partners – Continental Airlines and Delta Air Lines – it is to join in a new global alliance. Meanwhile, the expansion of its hub at Roissy, north of Paris, will take a big step forward with the planned opening of a third runway in April. Page 15

Currency peg rumours dog Brazil

In quiet year-end markets, a rumour from New York that Brazil was about to abandon its currency peg got more than the usual attention. The story was encouraged by a record daily outflow of dollars from Brazil on Monday and repeated heavy falls in the country's stock market. But analysts pointed out that much of the outflow should have been expected. Page 18

Olivetti ends year on a high



Shares in Olivetti, the computer and telecommunications group, ended the day L130 or 2.3 per cent higher at L5,710 on the Mibtel index in Milan. The stock has been buoyed by optimism about the prospects for its Infostrada fixed-line unit. Olivetti shares, the most heavily traded on the bourse yesterday, have risen 509 per cent since the start of the year. Page 26

HK waits for telecoms deregulation

With only days to go before one of Hong Kong's last big private monopolies is cracked open, activity within the telecommunications sector is frenetic. Local and international telecoms operators are jockeying for position ahead of January 1, when the territory's lucrative international direct dial market is deregulated. Companies have been signing alliances, slashing tariffs and advertising heavily. Page 12

Central bankers warn on earnings

European central bankers admitted that 1999 would be tough on the economic front, confirming analysts' views that lower corporate earnings were in prospect. Page 17

Tokyo up despite rise in bond yields

Shares in Tokyo, boosted by last-minute trades of a large-lot futures order, rose despite a rise for 10-year government bond yields. Page 26

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MARKET STATISTICS

Conoco to take $50m charge

Oil group plans 975 job losses and capital spending cut

By Hillary Durgin in Houston

Conoco became the latest casualty of depressed oil prices yesterday as the US oil company said it would take an after-tax charge of $50m, or 8 cents per share, against fourth-quarter earnings to cut costs and jobs.

The company said it expected annual savings of $60m from the action, which will include 975 job cuts. It also said it would reduce its capital spending in 1999 by $500m, or 21 per cent, to $1.8bn.

Conoco, based in Houston, joined a growing band of big oil companies – including Royal Dutch Shell group and Texaco – that are curtailing spending plans as the lowest oil prices to hit the industry in more than a decade squeeze cash flow and profits.

The slump, which has lasted longer and hit harder than expected, has also prompted unprecedented consolidation led by Exxon's planned acquisition of Mobil and BP's intended takeover of Amoco.

Conoco's action came on the heels of an announcement Monday by Halliburton, the oilfield service and equipment supply group, which is to cut 2,750 jobs in its energy services group and take pre-tax charges in the fourth quarter totalling $85m.

"It's going to be very difficult for companies that serve the oilfield in the energy business," said Dave Lesar, H[illegible] burton preside[illegible] operating [illegible] the margins that we would like and there are going to be companies that potentially don't survive this kind of an environment."

The chief problem for Halliburton and its sub-contractors is that their oil company customers are spending less.

Conoco said it would cut its oil and gas exploration budget [illegible] to $1.3bn, leaving its capital budget for refin[illegible] untouched. The company, which completed several large projects last year including the giant Britannia natural gas field development in the UK North Sea, will focus on its deep-water exploration and production efforts.

The company has 16,000 regular employees and more than 27,000 full-time contractors.

It had net income of $109.7m on sales of $25.78bn last year and was expected to earn six cents per share in the fourth quarter, according to a consensus of analysts compiled by First Call, the research firm. By early afternoon in New York, Conoco shares were down $¼ to $20⅝ on the New Stock Exchange.

STORES TAKE DRASTIC MEASURES IN G[illegible]

Japan's retailer[illegible]se year-end shoppin[illegible] spree

By Alexandra Harney in Tokyo

Ito Yokado, one of Japan's largest retailers, has this week launched huge discount sales at its supermarket and convenience store chains during the key end-year shopping season in an attempt to revive sluggish consumer sentiment.

The move by Ito Yokado and its subsidiary Seven Eleven, the leading convenience store chain, to cut prices between 5 and 10 per cent at its 8,000 stores, highlights the increasingly drastic measures Japanese companies and politicians are taking to drum up demand in the country's longest recorded recession.

Facing the possibility of a sharp contraction in sales volumes this year, Ito Yokado, Daiei, and Jusco, three of the leading supermarket chains, have tried waiving a consumption tax, which was raised from 3 to 5 per cent in April 1997. Other stores, such as Jeans Mate, the clothing retailer, have shifted to 24-hour operation. Last month, the Japanese government offered some households shopping coupons worth Y20,000 ($174) starting next year.

Ito Yokado is confident its sale will push it ahead of the pack. "December is the top-selling month in Japan, and the last week is the time when our customers have the greatest opportunity to shop," the company said. In the first three days of the sale, Ito Yokado has already seen sales jump 40 per cent compared with the same period last year.

But increased sales may not turn into increased profits. In the first six months of this year, Ito Yokado's net earnings slipped to Y34.6bn from Y37.7bn during the same period last year, although turnover improved slightly to Y1,600bn. Rival supermarket Daiei fared even worse, posting net losses of Y983m.

With the jobless rate at a high of 4.4 per cent, household spending falling for 12 months, and incomes steadily declining, analysts warned that retailers could not hide from the recession. "There is a danger that if they become dependent on [bargain sales], that over time the impact of each sale wanes. Clearly the fundamentals are still the same," said one.

Retail sales have been in a slump since the consumption tax rise last year.

Editorial Comment, Page 6

Tokyo retailers hope the year of the rabbit will mean a leaping economy

European trading lifts LSE to record year

By Norma Cohen in London

Record volumes of shares traded hands on the London Stock Exchange in 1998, with overall turnover boosted by a more than 50 per cent rise in the value of international share trading, the exchange said yesterday.

The LSE, which said its figures were preliminary, hailed the result as evidence that it has maintained its role as the centre for international share trading in Europe. The majority of the rise in trading in international equities – defined as shares in those companies largely domiciled outside the UK – came from European equities. "London's position as a leading international market was further strengthened during the year," the exchange said. "This was despite the slowdown in the number of new listings due to volatile world markets."

But the exchange said it did not believe the latest data undermined the rationale for its plan to link with the Frankfurt Stock Exchange, with the long-term goal of creating a pan-European exchange for Europe's largest companies.

The first phase of that plan is set to take effect in early January. "A number of firms have put forward estimates suggesting that trading in Euro-land stocks is likely to double over the next five years. The reason is that with an aging population, we expect a significant shift in national savings patterns. Although we have a large share of the pie now, that could change over the next few years."

The latest data show that total trading in international equities in London was £2,195bn ($3,674bn) as measured by value, up 52 per cent from 1997. The number of bargains transacted also rose sharply by 30 per cent to 7.12m from 5.45m in 1997.

Turnover in UK shares rose much more modestly by 2.2 per cent to a total value of £1,084.6bn. However, the number of bargains increased more sharply, up 22 per cent to 16.18m.

The number of smaller companies choosing to list on the exchange continued to rise despite difficult markets in the second half of the year.

Of the 197 companies joining the exchange in 1998, 144 were smaller companies.

Aggregate market capitalisation of domestic and international companies achieved record year-end totals, with UK companies having a combined worth of about £1,352bn and overseas companies valued at £2,725bn.

London stocks, Page 24

Lafarge set for Serbian cement plant deal

By Guy Dinmore in Belgrade

Lafarge of France has fought off a rival bid by Britain's RMC to win agreement to take a majority stake in Serbia's state-owned Beocin cement plant.

But diplomats said European Union sanctions against Serbia could block the proposed deal.

Miladin Vuletic, a senior official at Beocin, said yesterday that Serbia had selected Lafarge from a number of companies and that an agreement should be signed by February. He said RMC had been ruled out after it said no payment could be made while EU sanctions against Belgrade were still in place.

Asked if Lafarge would be able to get round the sanctions, Mr Vuletic replied: "I hope so."

EU sanctions imposed this year in response to the crackdown by government forces in Kosovo province prohibit fresh investment in Serbia. The deal would be the largest privatisation sale by the cash-strapped Serbian government since the partial sale of Telecom Serbia 18 months ago.

A government official, who asked not to be named, said Beocin was valued at $150m and Lafarge would take about 51 per cent. Lafarge had also offered a credit line to the Serbian government of about $75m. On the EU investment ban, he said: "There are ways to get around that."

But a French diplomat in Belgrade said Lafarge could only sign a letter of intent and that the deal could not go ahead while EU sanctions were in force. "As far as the French government is concerned, we will respect the interdiction on investment until the last moment," he said.

Beocin, in the northern province of Vojvodina, produces about 1m tonnes of cement a year. It is in demand because of reconstruction following the wars that broke apart former Yugoslavia.

Beocin's management board voted in favour of RMC but was overruled by members of the government, the official Serbian source said. Serbian newspapers suggested political factors influenced the choice of a French company because of Britain's perceived tougher line towards Kosovo.

Negotiators from Lafarge arrived in Belgrade yesterday but were not available for comment.

BARRY RILEY

It's neck and neck in the bonds and equities stakes

Nine years ago, I speculated that the 1990s might prove to be the decade of the bond, in contrast to the 1980s, which had been a golden era for equities. My focus was on the UK, where bonds had enormous scope to gain from the secular decline of inflation, but the potential for bond outperformance existed elsewhere too.

I compiled progress reports after 2½ and 5 years, at which points UK government bonds were indeed showing better cumulative returns than UK equities. However, after 7½ years equities had snatched the lead. Now the decade is 90 per cent completed, and it seems a good moment to update the statistics as the race enters the final straight.

Globally, there is nothing in it. The JP Morgan Global Government Bond Index was leading consistently until early 1977 when the FT/S&P Actuaries World Index surged forward. Equities stayed ahead until July this year, but they faltered and bonds have almost caught up. The respective annualised dollar returns are now 9.5 and 9.4 per cent in favour of equities.

But in the UK, bonds are now significantly ahead on the basis of my original comparison of the All-Share Index and the over 15 Years gilt-edged index. Against a 13.6 per cent All-Share return in local currency, long gilts have achieved an extraordinary 14.8 per cent. The high average duration of gilts gives them the edge over other government bonds when interest rates are falling, and this index specifically captures the high returns at the long end. The JPM UK Index, covering the broader gilts market, is running slightly *behind* the All-Share. On the other hand, risky bonds should give significantly higher returns than top grade government paper.

The overall global parity in bond and equity returns conceals a huge contrast between the deflation-hit markets of Japan and booming Wall Street.

Japanese government bonds have faltered during the past week or two, and hit year-end-selling yesterday, but they show excellent total returns over nine years of 7.4 per cent annualised. Equities have suffered *negative* returns of 8.8 per cent, which demonstrates the impact of Japan's yawning output gap.

Is there a warning here for Wall Street's bulls? In fact US equity and bond returns stayed very close until the beginning of 1995. Since then, however, equities have returned 29.4 per cent a year while Treasuries have managed a merely respectable 10.1 per cent. Calculated over the full nine years, US equities have returned an annualised 17.4 per cent, twice as much as bonds.

As for Germany, bonds stayed ahead until 1997 when a Wall Street-style equity bull market began to develop. However, the Continental bourses have faltered in recent months, and the equity return of 10.6 per cent is now only a modest two percentage points or so ahead of the bund returns – representing a more reasonable version than in most other markets, over the course of the 1990s, of what an equity risk premium should theoretically look like.

However, theories about the risk premium remain in the melting-pot. Only in the US has the puzzlingly high postwar long-term level of 6 or 7 per cent been maintained. It would appear that a different risk premium, the inflation risk premium, has been squeezed out of conventional bonds, especially in countries like the UK where historically inflation has been high. This is a once-and-for-all change, although the Japanese example shows it can proceed a very long way if the economic circumstances are peculiar enough.

Eventually central banks, led by the US Federal Reserve, may succeed in rekindling inflation. In the meanwhile, however, the squeeze on corporate profits and the fear of deflation in many countries could generate a final burst of glory for bonds.

Bonds, Page 14

Singer's Brazilian sale fails to lift shares

By Richard Waters in New York

Singer, the US maker of sewing machines whose brand is a household name from Mexico to Sri Lanka, has taken the first step in a restructuring forced on it by the collapse of emerging markets.

Last week, in the first part of a disposal programme announced early in the year, Singer said it had sold its retail operations in Brazil. As in several other countries, the stores sold Singer-branded items such as television sets and refrigerators made by other manufacturers, as well as the company's own sewing machines.

Despite the move, however, the company's battered stock has failed to revive and its immediate outlook, in the face of Asia's continuing economic problems and a gathering slowdown in Latin America, remains clouded.

Singer relied on the emerging world for 70 per cent of its $1.4bn of revenues last year, including those from affiliated companies.

Standard & Poor's, the US rating agency, put Singer's B+ credit rating under review for a downgrade, prompted by its exposure to the emerging world, a slower-than expected programme of asset sales and a weaker cash position.

However, Stephen Goodman, chief executive, said the company did not intend to shift its basic focus on emerging economies. He added that recent signs of a revival in Asia supported the company's view that a broader recovery would be evident in the region in 2000 – though he also warned that hopes of a revival earlier this year had proved unfounded.

Singer's difficulties in Brazil reflect the broader problems faced by consumer product companies in a country that sucked in foreign investment in the early 1990s. "It was a fantastic market between 1993 and 1995," said Mr Goodman. The relaxation of market restrictions and a consumer spending boom led to soaring demand for all types of consumer durables, he added.

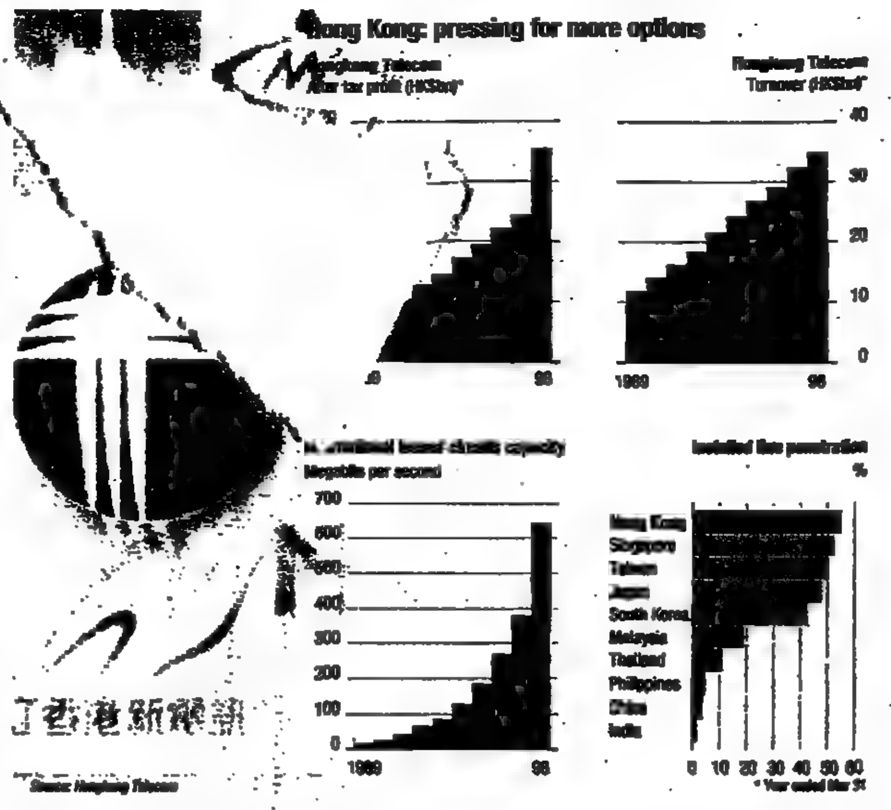
The disposal, concluded last week, has done little for Singer's shares. They were trading yesterday at $3¾, against a 1993 peak of $37½.

While acknowledging that Singer had moved more slowly than it had hoped in selling properties to raise cash, Mr Goodman said the company had been successful in scaling back its balance sheet this year.

Despite its problems, Singer is not ready to scale back in emerging markets. On Thailand, where Singer's sales have fallen from $350m to $120m over the past five years, Mr Goodman said: "Our view is, it's going to recover. In the long term, Thailand is going to make sense."

Deregulation sets cost-cutting ball rolling in HK telecoms

Groups are jockeying for position as the territory's international direct dial market is opened to competition, writes **Louise Lucas**



With barely a week to go before one of Hong Kong's last big private monopolies is cracked open, activity and price cutting within the telecommunications sector is frenetic.

Local and international telecoms operators are jockeying for position ahead of January 1, when the territory's lucrative international direct dial (IDD) market is thrown open. Eager not to miss a trick, participants have been signing alliances, slashing tariffs and advertising heavily.

Alliances between global players have been signed by New T&T and New World Telephone.

These new alliances, the groups say, will enable them to deliver seamless services when they launch their international simple resales (ISR) services next year.

ISR, where operators lease and sell on existing capacity, is the first phase of Hong Kong's deregulation. From January 1, operators will be able to build their own infrastructure.

New T&T's partnership is with Global One – which groups Deutsche Telekom, France Telecom and Sprint of the US – and this will help it deliver calls by ISR. Overall costs to the company are set to fall by some 20 per cent, according to Stephen Ng, New T&T chairman.

Price cutting on mobile services has also come sharply into focus. Earlier this month, Hutchison Telecom, the biggest of Hongkong Telecom's rivals, slashed its mobile tariffs by 83 per cent. On the same day, SmarTone, the third biggest mobile operator, launched a new deal of 1,000 minutes for HK$388 (US$50) a month.

However at Hongkong Telecom the pace of change has been rather more sedate. IDD services last year accounted for just under half of total turnover.

Attempts to cut costs, already under way for a number of years, ran aground in September when the company's 13,500 employees balked at a proposed 10 per cent salary cut. A compromise to link the 13th money pay – a traditional although not obligatory "bonus" paid in Hong Kong – to profitability was also rejected by staff.

Efforts to expand other areas of profitability to replace IDD have also been problematic. Geographically, Hongkong Telecom has achieved little more than a whisper of a promise and a few consultancy-style deals in China, its natural expansion market.

Nor has it made any purchases in south-east Asia, despite signalling its intention to do so at the start of the region's financial crisis.

While British Telecommunications has scooped up significant stakes in LG of South Korea and Binariang of Malaysia, Hongkong Telecom only went as far as to acquire a Hong Kong-based mobile phone company. But that has shed subscribers since the acquisition.

Analysts attribute Hongkong Telecom's abortive acquisition trail to parent Cable and Wireless of the UK, which is loathe to see benefits of an acquisition accrue solely to its subsidiary.

Cable and Wireless set out stringent criteria for majority stakes in any acquisition, sought 50:50 partnerships and "basically restricted Hongkong Telecom from making any meaningful investments", says Dylan Tinker, regional telecoms analyst at Jardine Fleming Securities.

In contrast, Hongkong Telecom has taken more proactive strides in Hong Kong. The company's decision four years ago to create more broadband capacity – which can be used for more network-intensive services such as internet and TV – means 75 per cent of Hong Kong's 1.8m households are now wired up and ready to receive, among other future services, digital TV.

However, this forward planning has done little to boost short-term revenues. This year's pioneering launch of video-on-demand is unlikely to break even in the next two years, analysts say.

Indeed, as profits begin to flow from newer areas the pressures on traditional sectors will intensify.

Mobile phones are coming under renewed attack with the aggressive price-cutting measures announced by Hutchison and SmarTone. "They [Hongkong Telecom] face the same problem on mobile that they have on IDD: they have resisted lowering prices to gain market share, and now it's going to catch up with them," says Mr Tinker.

Hong Kong's poor economic climate has prompted Hongkong Telecom to hold off implementing tariff hikes for local lines on January 1, writes Louise Lucas. The right to increase local rates then was part of the group's compensation for the early surrender of its IDD monopoly.

Analysts say Hongkong Telecom may have balked at raising prices when competition was intensifying. Thus, while the group is eager to rebalance its tariffs – IDD services currently subsidise local ones to the tune of HK$1bn a year – it will continue with its HK$68.90 monthly fee for local residential lines. Local calls are free, and the group's local residential line business operates at a loss.

NEWS DIGEST

TRAVEL INDUSTRY

Preussag agrees takeover offer for First Reisebüro

Preussag, the German group, yesterday unveiled the latest stage in its strategy of transforming itself from a heavy-industrial conglomerate into a travel and logistics-oriented company with the announcement it had agreed the takeover of First Reisebüro, Germany's biggest chain of travel agents. The deal follows Preussag's announcement last week that it had agreed the acquisition of a controlling stake in Thomas Cook, the British travel agency and financial services company.

Privately-held First Reisebüro operates 560 travel agent outlets. Among the company's shareholders is Westdeutsche Landesbank, the big publicly owned bank that is also Preussag's largest shareholder.

WestLB was also the largest shareholder in Thomas Cook, where it has agreed to sell a total of 50.1 per cent of the company to Preussag in two tranches.

The takeover of First Reisebüro is being carried out by Hapag-Touristik Union, Preussag's travel and tourism unit, and was pushed through shortly before the end of the year for tax reasons. Financial terms for the deal, which must be approved by the federal cartel office, were not disclosed. **Frederick Stüdemann, Bonn**

BANKING

ABN Amro in euro clearing deal

ABN Amro said yesterday it had become the first bank to receive approval to clear euros directly from the US. The Dutch bank said its North America regional clearing centre in New York had become a member of the Electronic Clearing House in Frankfurt, which would give it a direct link to Target, the European central bank's settlement system.

ABN Amro also launched euroSmart, a centralised clearing service that enables customers to manage their dollar and euro accounts from a single entry point in New York. **Clay Harris**

VEHICLE PARTS

SPX to cut 1,000 jobs

Vehicle parts maker SPX Corp said it would cut 1,000 jobs, or about 7 per cent of its workforce, and take a charge in the fourth quarter as it integrated the operations of General Signal. SPX will close about 25 of General Signal's facilities, including its headquarters in Stamford, Connecticut, and take a charge of $210m-$250m, before taxes, to cover the costs.

SPX agreed to acquire General Signal in July for about $2bn, creating a company with annual sales of $2.5bn in vehicle parts, industrial and electrical controls, and other businesses. The job cuts, which will occur over the next six months, stem from the closings, an early retirement programme and other actions, SPX said.

At the time the deal was announced, SPX said it would be accretive to earnings in 1999 and identified annual cost savings of $55m-$60m, which could be realised in the first year after the merger. Analysts have forecast 1999 earnings of $4.83 a share. SPX shares were trading down $1½ to $65⅛ at midday yesterday.
AP-DJ, Muskegon, Michigan

VEHICLE MANUFACTURING SWEDISH GROUP SEES CHARGES OF UP TO SKr300m A YEAR

Volvo warns on cost of euro

By Tim Burt in Stockholm

Volvo: 'will incur higher costs at its manufacturing plants within the euro-zone'

Volvo, the Swedish automotive group, yesterday warned that transaction and currency charges associated with the euro could cost the company up to SKr300m ($36.9m) a year.

The group, which is urging the Swedish government to join the single currency as soon as possible, said Sweden's decision to abstain from the project meant Volvo would incur higher costs at its car and truck manufacturing plants inside the euro-zone.

"As long as Sweden remains outside the euro, Volvo will suffer from a disadvantage in currency and interest costs," said Lars I. Persson, the executive leading Volvo's euro preparations.

Volvo is the first big Swedish corporation to quantify the financial cost of the government's decision not to join the euro, at least in the first wave.

As a whole, Swedish industry has criticised the move, arguing that export-oriented companies will lose out to competitors inside the euro-zone, which will enjoy greater transparency in purchasing prices and an end to currency transaction costs.

Sweden's ruling Social Democrats have adopted a wait-and-see approach to the euro, even though it does not have an opt-out from the Maastricht treaty.

A referendum on Swedish participation is not expected before 2001, when the country assumes the European Union presidency.

Volvo, in its single currency preparations, is predicting the country will not embrace the euro before 2003. The automotive group has sales of close to SKr70bn in the euro-zone, accounting for about a third of its total revenues.

Excluding higher-than-average interest charges in Sweden, the company has estimated euro-related currency hedging and transaction costs at SKr250m-SKr300m a year – equivalent to almost 2.3 per cent of annual pre-tax profits.

The company is planning to transfer its group accounts to the euro from 2001, although it will demand payments in the single currency from euro-zone suppliers from the start of 1999.

That is expected to contribute savings on purchasing costs of about SKr100m a year.

Scania sees rise in European sales

By Tim Burt

Scania, the Swedish heavy truck maker, is expecting a sharp rise in European sales this year following increased fleet demand in France and Germany.

The company, which controls about 15 per cent of the western European market, is likely to see full-year sales in the region rise by up to 20 per cent to about 32,000 vehicles, according to industry and company estimates.

That growth will offset volatile demand in Latin America, where weak sales and cost overruns in Brazil – Scania's single largest market – could dent the group's profit growth for 1998.

Sales in the region are forecast to fall by 15-20 per cent in the 12 months to January 31.

In a bid to improve margins in Latin America, Scania has laid off 300 workers in Brazil – almost 6 per cent of its workforce in the region – in the past three months.

Nevertheless, robust European growth is expected to lift full-year operating profits, before exceptional items, from SKr3.06bn to SKr3.6bn ($442m) on sales up sharply from SKr39.7bn to SKr45bn.

Scania said yesterday its performance had been enhanced by rapidly rising demand in France, where full-year sales are projected to rise from 2,854 trucks in 1997 to about 4,000.

"There have been a number of big fleet orders for the 4-series truck, which has been a breakthrough in France," said Scania.

The overall European truck market is expected to grow from 170,000 to 200,000 units for 1998.

While that should lift underlying operating profits, pre-tax figures for the year are likely to be undermined by restructuring charges and operating losses in Brazil.

Scania, meanwhile, is expected during the first quarter to conclude a feasibility study into whether to move into mid-size trucks.

The company has been exploring such a step for more than a year, following inconclusive talks with Volkswagen of Germany about a possible joint development in that sector.

If Scania decides to move into mid-size trucks, the vehicle is expected to be modelled closely on its 4-series heavy truck.

Yesterday, the company declined to say when it might make a final decision.

Siemens to build Indian terminal

By Amy Louise Kazmin in New Delhi

India's southern state of Tamil Nadu has picked a Siemens-led consortium to build, own and operate a $1.48bn integrated liquefied natural gas terminal and power plant at its new port of Ennore, outside the city of Madras.

The project calls for a terminal that could initially receive 2.5m tonnes of LNG every year, and then be expanded to meet demand for LNG from other customers.

However, it initially envisages using the entire quantity of LNG for a 1,886 megawatt power plant near the port.

The consortium, Dakshin Bharat Energy, was chosen by the Tamil Nadu Industrial Development Corporation (Tidco), a state-owned company charged with attracting infrastructure investment in the state. It is promoting overseas investment in areas such as power, ports and roads.

Along with Siemens, the consortium includes Unocal and CMS of the US, India's Aditya Birla, and Woodside Petroleum of Australia. The group has tied up with RasGas of Qatar for the supply of LNG to the project.

Tidco said its key criteria had included the cost of power, capital costs, power plant costs and the pricing of the LNG.

Tidco is building a port to handle bulk cargo at Ennore to relieve the congestion at Madras.

Other bids came from partnerships led by Enron of the US, Petronas of Malaysia, and the Anglo-Dutch Shell Gas.

Jump in investment in US equity mutual funds

By Richard Waters in New York

Ordinary Americans poured their savings back into the stock market in November, recovering confidence quickly after the sickening dive that share prices took in August and September, according to figures released yesterday.

Equity mutual funds, which have been at the heart of America's love affair with the stock market in the 1990s, drew in a net $13bn during the month. That compares with just $2.5bn the month before, according to the Investment Company Institute, the mutual fund industry's trade association.

Despite the quick recovery in confidence in the stock market, however, the latest mutual fund figures show Americans are also still hunting for safer homes for their investments.

Money market funds, the safest vehicles of all, drew in $34bn, lower than the $45.8bn of October but still well above normal levels. In September, such funds attracted only $7.4bn.

In another sign of greater caution, bond funds attracted $9.1bn during November, compared with $5.4bn the month before.

The recovery of interest in equity mutual funds, meanwhile, marks a partial return to the sort of enthusiasm that reigned in the first half of this year. On average, such funds had attracted more than $20 a month, before a summer lull and the autumn stock market volatility produced a new mood of caution.

While American investors have recovered some of their confidence in their domestic stock market, however, they still seem wary of foreign equities. According to the Institute, most categories of funds that invest in foreign stocks suffered outflows of money during November.

As a result, such funds now account for only 18.5 per cent of the $2,826bn invested in US mutual funds – down from 14.8 per cent a year ago.

JGB prices fall sharply

GOVERNMENT BONDS

By Vincent Boland in London and John Labate in New York

Bond markets went hither and thither in quiet post-Christmas trading yesterday. Yields on Japanese government bonds rose sharply while European markets were mostly firmer and US Treasury bond prices fell slightly.

Several banks were reported to be in the market selling JGBs, sending prices tumbling ahead of the market's close today for the New Year holiday.

The yield on the benchmark 10-year JGB had risen nearly 20 basis points to 1.87 per cent at the close of business in Tokyo, slightly below the day's high of 1.9 per cent.

Traders and analysts said the JGB market was adjusting to fears of a big oversupply of bonds next year after the Trust Fund Bureau, a key supporter of the market, said last week it would be reducing its buying activities in the market.

The news prompted many other big investors to begin unloading overweight positions, and further price falls were likely, the analysts said.

The weakness of the Tokyo market spilled over into the US Treasury market, where Japanese buyers are big players.

In early trading yesterday the price of the benchmark 30-year bond had fallen $\frac{1}{32}$ to $101\frac{7}{16}$ in thin trading to yield 5.155 per cent. Among shorter-term issues, two-year notes fell $\frac{1}{32}$ to $99\frac{31}{32}$, yielding 4.744 per cent, and 10-year notes lost $\frac{1}{8}$ to $99\frac{27}{32}$, yielding 4.769 per cent.

"It's a very quiet day, and the volume is quite light ahead of the day's two-year auction," said Richard Gilhooly at Paribas Capital Markets. The US Treasury was due to auction $15bn in two-year notes later in the afternoon.

European markets were generally unaffected by the sell-off in Tokyo and ended higher in very quiet trading as confidence grew about a smooth change-over to the euro this weekend. The supportive tone was reinforced by comments from European central bankers to the effect that post-euro interest rates would remain steady at 3 per cent well into 1999.

Anticipating the new currency, the German government is to auction 10-year bunds denominated in euros next week to raise about €5bn. It will be the first such auction in euros from that source and will mark the first of a wave of issuance in the euro next year.

In the markets, the March German bund contract stood 0.37 higher at 115.61 in late Frankfurt trading, while the March UK gilt contract was also sharply higher, settling at 118.67.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 29	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.7807	4.86	+0.06	+0.19	+0.09	−0.67
	08/08	8.750	127.6513	5.08	+0.09	+0.19	−0.05	−0.80
Austria	07/00	5.875	103.7900	3.29	−0.05	−0.05	−0.17	−1.05
	01/08	5.000	107.0000	4.08	−0.02	−0.03	−0.17	−1.27
Belgium	01/00	4.000	100.6500	3.16	−0.03	+0.01	−0.17	−1.09
	03/08	5.750	112.7108	4.07	−0.04	−0.07	−0.16	−1.28
Canada	12/00	5.000	100.2500	4.86	−0.02	+0.09	−0.02	−0.35
	06/08	6.000	107.2700	5.02	−0.02	+0.06	−0.07	−0.63
Denmark	11/00	9.000	109.1200	3.62	–	−0.05	−0.12	−0.04
	11/07	7.000	120.0500	4.24	−0.02	−0.06	−0.20	−1.37
Finland	01/99	11.000	100.2229	2.65	−0.04	−0.09	−0.24	−1.36
	04/08	6.000	114.9300	4.04	−0.03	−0.04	−0.19	−1.30
France	07/00	4.000	[illegible]	3.15	−0.03	+0.01	−0.10	−1.04
	10/05	7.750	124.7400	3.58	−0.04	−0.04	−0.16	−1.36
	10/08	8.500	136.8700	3.90	−0.04	−0.04	−0.17	−1.36
	04/29	5.500	111.6900	4.76	−0.04	−0.06	−0.13	−1.07
Germany	08/00	4.000	101.1000	3.20	–	+0.01	−0.11	−0.88
	10/05	6.500	116.3700	3.72	−0.03	−0.04	−0.16	−1.24
	07/08	4.750	106.7800	3.86	−0.04	−0.06	−0.11	−1.36
	01/28	5.625	112.4300	4.82	−0.04	−0.04	−0.08	−1.03
Ireland	10/01	6.500	108.5500	3.28	−0.02	−0.06	−0.27	−1.63
	08/08	8.000	115.2000	4.08	–	−0.02	−0.18	−1.40
Italy	04/01	[illegible]	102.7900	3.20	+0.03	–	−0.28	−1.64
	07/03	4.500	104.5600	3.40	−0.02	−0.05	−0.28	−1.64
	06/08	6.000	107.7800	3.98	+0.03	−0.04	[illegible]	−1.53
	11/27	6.500	124.4000	4.90	−0.02	−0.06	−0.18	−1.08
Japan	12/00	6.900	111.8460	0.79	+0.02	+0.06	+0.48	[illegible]
	12/03	4.100	112.8180	1.42	+0.03	+0.11	+0.66	+0.13
	06/08	1.800	99.3730	1.87	−0.02	+0.09	+0.75	+0.10
	03/18	2.700	101.0340	2.63	+0.03	+0.11	+0.80	+0.08
Netherlands	05/00	9.000	107.6400	3.15	−0.07	−0.08	−0.21	−1.04
	07/08	5.250	109.8100	3.89	−0.01	−0.02	−0.11	−1.23
New Zealand	02/01	8.000	105.2264	5.31	+0.06	+0.33	+0.36	−2.30
	07/09	7.000	111.1976	5.58	+0.03	+0.20	−0.04	−1.36
Norway	01/99	9.000	100.0400	7.78	–	−0.04	−0.11	+3.37
	01/07	6.750	108.8000	5.37	−0.05	−0.08	+0.11	−0.08
Portugal	03/00	5.375	102.5900	3.16	−0.05	−0.09	−0.34	−1.48
	06/08	5.375	109.9500	4.08	−0.08	−0.10	−0.22	−1.47
Spain	04/00	6.750	104.5800	3.02	−0.06	−0.07	−0.34	−1.41
	01/08	6.000	115.1800	3.97	−0.09	−0.19	−0.28	−1.53
Sweden	05/00	10.250	108.4820	3.59	+0.01	+0.01	−0.11	−1.49
	05/08	6.500	117.1380	4.23	−0.01	−0.02	−0.17	−1.73
Switzerland	08/00	4.500	104.2500	1.47	−0.09	−0.08	−0.03	−0.41
	01/08	4.250	115.1000	2.37	−0.04	−0.06	−0.04	−0.88
UK	11/01	7.000	105.9100	4.76	−0.01	−0.08	−0.34	−1.97
	12/03	6.500	109.3000	4.36	−0.02	−0.09	−0.37	−1.96
	10/08	9.000	136.2500	4.40	−0.04	−0.10	−0.36	−1.80
	12/28	6.000	128.8200	4.28	−0.04	−0.08	−0.22	−1.90
US	09/00	4.500	99.5492	4.77	+0.05	+0.14	+0.11	−0.94
	08/03	5.250	102.0436	4.75	–	+0.15	+0.10	−1.02
	05/08	5.625	105.7684	4.86	−0.01	+0.08	–	−0.91
	08/28	[illegible]	103.7293	5.25	–	+0.04	+0.08	−0.72
ECU	07/00	4.000	101.1600	3.20	+0.02	+0.01	−0.15	−1.35
	04/08	5.250	110.3000	3.91	−0.02	−0.03	−0.18	−1.47

London closing. * New York mid day. Source: Interactive Data/FT Information

Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Dec 29	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.09	+1.23	+0.32
Austria	3.98	+0.12	−0.79
Belgium	4.13	+0.27	−0.64
Canada	5.02	+1.16	+0.25
Denmark	4.21	+0.35	−0.56
Finland	4.07	+0.21	−0.70
France	3.90	+0.04	−0.87
Germany	3.86	–	−0.91
Ireland	4.09	+0.23	−0.68
Italy	4.09	+0.23	−0.68
Japan	1.89	−1.97	−2.88
Netherlands	4.00	+0.14	−0.77
New Zealand	5.59	+1.73	+0.82
Norway	5.35	+1.49	+0.58
Portugal	4.13	+0.27	−0.64
Spain	4.04	+0.18	−0.73
Sweden	4.25	+0.39	−0.52
Switzerland	2.46	−1.40	−2.31
UK	4.39	+0.53	−0.38
US	4.77	+0.91	–
ECU	3.97	+0.11	−0.80

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Dec 29	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB−	94.9592	8.86	+0.20	−1.31	+4.17
Poland	07/04	7.125	[illegible]	104.8176	6.10	+0.03	−0.15	+1.43
Russia	06/07	10.000	[illegible]	23.5709	46.80	+0.20	+7.47	+42.05
LATIN AMERICA								
Argentina	09/27	9.750	BB	88.7899	11.04	+0.18	+0.28	+5.90
Brazil	05/27	10.125	BB−	67.1889	15.18	+0.20	+1.83	+10.04
Mexico	05/26	11.500	BB	105.4472	10.87	+0.20	+0.48	+5.75
ASIA								
China	07/08	7.750	BBB+	103.3873	7.14	+0.20	+0.23	+2.43
Philippines	10/16	8.750	BB+	94.2485	9.42	+0.20	+0.42	+4.49
Thailand	04/07	7.750	[illegible]	96.8472	8.26	+0.20	−0.28	+3.53
MIDDLE EAST								
Lebanon	07/00	9.125	BB−	105.1425	6.90	+0.20	+0.05	+2.13
South Africa	10/06	8.375	BB+	96.0675	9.09	+0.01	−1.82	+4.37
Turkey	09/07	10.000	B	88.4873	12.62	+0.22	+1.34	+7.87
BRADY BONDS								
Argentina	03/23	5.750	BB	71.5000	8.87	+0.05	+0.31	+3.81
Brazil	04/14	5.000	[illegible]	59.8750	14.15	+0.21	+1.87	+9.26
Mexico	12/19	6.250	BB	77.3750	8.80	+0.10	+0.10	+3.82
Venezuela	03/20	6.750	B+	67.5000	10.63	+0.32	[illegible]	[illegible]

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	110.90	111.31	+0.49	111.44	110.90	13,468	98,305

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Feb	Calls Mar	Calls –	Puts Feb	Puts Mar	Puts –
109	2.43	2.52	-	0.13	0.32	-
110	1.60	1.87	-	0.29	0.57	-
111	0.93	1.26	-	0.62	0.95	-
112	0.47	0.79	-	1.16	1.48	-

Est. vol. total, Calls 158 Puts 102. Previous day's open int., Calls n/a Puts n/a

Germany

NOTIONAL GERMAN BOND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.29	115.66	+0.41	115.75	115.27	44,936	280,425

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
11550	0.37	0.76	1.05	0	0.41	0.66
11600	0	0.52	0.78	0.13	0.65	0.92
11650	0	0.32	0.58	0.63	0.95	1.21

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	108.67	108.65	+0.04	108.71	108.51	10,313	187,529

NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	101.18	-0.07	-	-	0	985

NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	100.90	+0.05	-	-	0	500

Also traded on APT. All Open interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	113.23	113.57	+0.29	113.65	113.23	2527	37040

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Feb	Calls Mar	Puts Feb	Puts Mar
11350	0.57	0.79	0.38	0.60
11400	0.33	0.55	0.64	0.86
11450	0.17	0.36	0.98	1.17

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 5000

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	116.41	116.55	+0.24	116.67	116.29	10,688	22,907

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	109.45	+0.09	-	-	0	76

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	118.48	118.67	+0.25	119.18	118.40	8208	99923
Jun	-	118.67	+0.25	-	-	0	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
11900	0.25	1.05	1.39	0	0.80	1.13
11950	0	0.80	1.12	0.24	1.04	1.38
11900	0	0.60	0.95	0.74	1.34	1.69

Est. vol. total, Calls 453 Puts 129. Previous day's open int., Calls 7135 Puts 7344

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	126-27	127-03	-	127-10	[illegible]	91,585	592,251
Jun	126-12	126-20	-	126-27	125-31	612	12,614
Sep	125-13	126-06	-		125-00	303	4,994

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	129.05	128.87	-	129.10	128.68	1155	n/a
Jun	-	128.07	-	-	-	0	n/a

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	–	109.90	+1.38	–	–	0	250

US CORPORATE BONDS

Dec 28	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA−	105.7901	5.41	−0.04	+0.04	+0.76
NY Tel	06/25	7.00	A+	101.6480	6.86	−0.05	+0.10	+1.70
CWE	06/08	8.00	BBB	114.4664	5.95	−0.06	−0.07	+1.19
FINANCIALS								
BECC	05/07	6.75	AAA	120.4912	5.64	−0.09	−0.02	+0.87
Banc One	08/02	7.25	A	104.7959	5.74	−0.04	+0.17	+1.09
CNA Fin	01/18	[illegible]	A−	98.6985	7.26	−0.07	−0.26	+2.09
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0214	6.07	−0.02	+0.19	+1.86
Wal Mart	08/02	6.75	AA	104.9854	5.12	−0.04	+0.07	+0.47
Dayton Hud	08/21	9.70	A−	134.5833	6.70	−0.07	–	+1.64
AGENCIES								
FHLMC	04/07	7.14	N/A	111.3286	5.42	−0.06	+0.06	+0.65
SLMA	03/00	7.50	N/A	102.6847	5.13	−0.16	+0.06	+0.40
FNMA	02/18	8.05	N/A	136.5193	5.77	−0.07	+0.21	+0.61
FFCB	06/05	8.95	N/A	121.6682	5.37	−0.09	+0.09	+0.60
HIGH YIELD								
[illegible] Corp	02/01	8.86	B	100.0000	0.00	–	–	–
AK Stl	12/01	9.13	BB−	103.5000	0.00	–	–	–
Pacalta	08/04	10.75	B−	[illegible]	0.00	–	–	–

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

Prime rate	7¾	One month	-	Two year	4.74
Broker loan rate	6⅝	Two month	-	Three year	4.68
Fed.funds	4⅝	Three month	4.62	Five year	4.65
Fed.funds at intervention	-	Six month	4.67	10-year	4.77
		One year	4.67	30-year	5.16

(Treasury Bills and Bond Yields)

INTERNATIONAL BONDS

Dec 29	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
[illegible]								
EIB	02/07	5.750	AAA	111.2000	4.10	−0.06	−0.13	+0.19
[illegible]	01/07	5.750	AA	111.1400	4.06	−0.03	−0.17	+0.15
Philip Morris	03/04	5.375	A	105.3183	4.21	−0.09	−0.16	+0.62
Finland FRN	06/02	3.406	AA	100.0244	2.81	−0.01	−0.10	−0.56
[illegible]								
Austria	01/04	5.500	AAA	108.5800	3.59	−0.01	−0.21	+0.11
Abbey Nat	02/04	5.000	AA	110.4700	3.72	−0.01	−0.19	+0.24
Cred Foncier	02/04	5.125	A	[illegible]	3.87	−0.01	−0.19	+0.49
SCIF FRN	12/01	3.625	AA−	100.0592	3.17	−0.02	−0.16	−0.10
[illegible]								
EIB	02/07	7.000	AAA	119.3500	4.14	–	−0.13	+0.18
Abbey Nat	02/02	6.500	AA	[illegible]	3.60	−0.01	−0.17	+0.26
Walt Disney	06/00	6.625	A	106.3200	3.66	+0.01	−0.14	+0.46
SB FRN	03/01	3.063	AAA	99.9167	3.21	+0.06	−0.06	−0.01
EURO £								
EIB	12/07	7.625	AAA	116.9720	5.20	+0.05	−0.13	+0.78
Dresdner Bk	12/07	7.750	AA−	110.9330	5.12	−0.03	−0.40	+1.70
British Gas	03/00	7.625	A+	102.0964	5.90	+0.01	−0.40	+0.86
Abbey Nat FRN	02/02	7.138	AA	100.1327	4.73	+0.01	−0.21	+0.24
EURO $								
EIB	04/07	7.250	AAA	112.6861	5.36	−0.02	−0.09	+0.58
ABN Amro	06/07	7.125	AA−	104.9020	6.35	−0.01	−0.10	+1.60
Quebec	01/07	7.000	A+	[illegible]	5.90	−0.02	+0.04	+1.15
Citicorp FRN	03/04	5.312	A+	94.5626	6.84	+0.01	−0.02	+1.87
[illegible] C$								
Bayer L-Bk	08/04	8.600	AAA	118.1919	5.43	–	−0.07	+0.15
Toronto	05/04	8.500	AA+	113.5967	5.61	–	+0.07	+0.23
Bell Canada	07/99	10.625	A+	102.6539	5.30	–	−0.04	+0.98
Deutsche B FRN	09/02	5.875	[illegible]	101.2012	5.51	+0.01	−0.06	+0.29
[illegible] YEN								
World Bank	09/02	5.250	AAA	113.8238	0.88	−0.02	+0.42	−0.36
Spain	03/02	5.750	AA	115.1476	0.96	+0.01	+0.44	−0.26
Cred Foncier	09/02	4.750	A	111.0915	1.88	−0.02	+0.54	+0.32
Italy FRN	07/99	0.461	AA	100.0286	0.46	+0.06	+0.29	−0.13

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Tue Dec 29	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Years	Duration Yield	% Weight
1 Up to 5 years (18)	122.16	0.05	1.96	10.16	1196.37	2.42	4.70	34.51
2 5-10 years (11)	172.07	0.19	1.82	11.35	1337.48	5.95	4.47	29.06
3 10-15 years (7)	[illegible]	0.24	3.06	10.43	1451.62	8.72	4.47	13.49
4 5-15 years (18)	176.75	0.20	2.19	11.12	1372.91	6.88	4.47	42.55
5 Over 15 years (4)	233.37	0.24	1.49	13.27	1586.34	11.86	4.44	22.16
6 Irredeemables (4)	327.06	0.20	2.09	14.66	1694.53	23.24	4.59	0.77
7 All stocks (44)	167.40	0.18	2.06	11.39	1354.95	6.86	4.49	100.00

UK Indices

Index-linked	Tue Dec 29	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	227.35	0.08	7.03	[illegible]	1184.04	15.32
2 Over 5 years (9)	258.12	0.24	2.06	5.96	1397.95	84.68
3 5-15 years (5)	241.90	0.19	1.79	5.34	1304.35	43.36
4 Over 15 years (4)	272.02	0.30	2.39	6.41	1483.78	41.32
5 All stocks (11)	252.39	0.21	1.90	5.95	1368.34	100.00

Yield indices	Dec 29	Dec 24	Yr ago	Yield indices	Dec 29	Dec 24	Yr ago
5 yrs	4.52	4.54	6.46	Irred †	4.59	4.61	6.30
10 yrs	4.49	4.48	6.25	Med. 15 yrs	4.47	4.50	6.21
15 yrs	4.46	4.48	6.20	High 15 yrs	4.59	4.61	6.30
20 yrs	4.46	4.48	6.20				

Coupon Bands: Medium: 8%-10¾%. High: 11% and over. † Flat yield. ytd Year to date.

Real yield	Inflation 0% Dec 29	Dur yrs	Dec 24	Yr ago	Inflation 5% Dec 29	Dur yrs	Dec 24	Yr ago
Up to 5 yrs	2.83	3.44	2.85	3.79	2.04	3.46	2.06	3.01
Over 5 yrs	2.15	13.13	2.17	3.31	1.95	13.23	1.96	3.00
5-15 yrs	2.20	9.86	2.22	3.31	1.92	9.91	1.94	2.99
Over 15 yrs	2.12	16.78	2.14	3.17	1.96	16.82	1.96	3.00
All stocks	2.18	11.58	2.20	3.23	1.95	11.71	1.97	3.00

FT Fixed Interest Indices

	Dec 29	Dec 24	Dec 23	Dec 22	Dec 21	Yr ago	High*	Low*
Govt. Secs. (UK)	115.53	115.38	115.50	114.95	115.32	101.29	115.62	93.31
Fixed Interest	156.47	156.41	156.47	158.14	158.74	135.58	157.10	115.32

© FTSE International Ltd 1998. All rights reserved. * for 1998. Government Securities high since compilation: 127.40 (1/8/35), low 49.18 (1/3/75). Fixed Interest high since compilation: 151.02 (9/18/98), low 50.33 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 8½pc 1999		9.49	6.06	100.1401	−.0144	102.63	[illegible]
Treas Flg Rate 1999		–	–	100.0388	−.0057	100.27	100.02
Exch 12¼pc 1999		12.07	5.62	101.5154	−.0264	106.31	101.52
Treas 10½pc 1999		10.31	5.46	101.8857	−.0197	104.98	101.89
Treas 6pc 1999		5.98	5.37	100.3575	+.0025	100.37	98.54
Conv 10¼pc 1999		9.85	5.24	[illegible]	[illegible]	[illegible]	103.62
Conv 9½pc 2005		7.49	4.54	126.8814	+.1046	125.89	117.56
Exch 10½pc 2005	½	7.84	4.53	133.9964	+.1646	134.04	124.23
Treas 12½pc 2003-5		9.28	4.50	134.6375	+.0759	134.90	127.40
Treas 8½pc 2005		6.87	4.47	123.7812	+.1900	123.81	113.10
Conv 9¾pc 2006	½	7.25	4.46	134.4281	+.2419	134.51	122.69
Treas 7¾pc 2006	½	6.42	4.53	120.6811	+.2086	120.76	109.03
Index-Linked							
2½pc '99	½	0.12	1.34	197.7343	+.0346	198.16	186.20
2½pc '01	(78.3)	2.18	2.59	205.9523	+.0346	206.40	194.72
2½pc '03	(78.8)	[illegible]	[illegible]	207.9690	+.1630	207.87	192.34
4⅛pc '04	(135.6)	1.80	2.11	133.8968	+.0902	133.97	124.26
2pc '06	(69.5)	1.80	1.96	233.4324	+.3624	233.43	208.58
[illegible]							

Other Fixed Interest

[illegible]

Loiseau offering fails to excite

By Samer Iskandar in Paris

Bernard Loiseau, one of only 20 chefs with the highest, three-star, rating in the Michelin Guide of French gastronomy, has failed to find the right recipe to stimulate investors' appetite for shares in his eponymous company, recently floated on the Paris bourse.

Regulators suspended trading in the shares for a week from last Wednesday, as soon as they were issued. Yesterday, they ended their first session at FFr50, up FFr1, in restricted trading.

The Commission des Opérations de Bourse, the stock market regulator, first suspended the sale on December 14, three days before the planned launch, asking the company to supply additional financial information.

However, the COB later deemed the information inaccurate and refused to clear the sale even after the shares had been placed with investors on December 23. In the past week, Loiseau has corrected the figures through advertisements in the financial press.

Portzamparc, the broker arranging the issue, said the delays had resulted in "bad timing", as market liquidity dried up in the holiday season. The offering was priced at FFr49 a share, at the bottom of the indicative range of FFr49-FFr56, but demand barely matched the 622,500 shares on offer (of which 300,000 were pre-placed).

However, Portzamparc remained "confident" the issue would perform well, claiming that at 14 times expected 1999 earnings, the shares were 30 per cent below their theoretical fair value.

Loiseau had net profits of FFr2.2m ($391,000) on sales of FFr31.3m in 1997. It is expecting FFr4.3m in profits on sales of FFr36m in 1998.

GOLD FACILITY WILL BE USED TO HELP FINANCE PURCHASE OF MINORCO GOLD MINING AND EXPLORATION INTERESTS

Anglogold agrees $350m syndicated loan

By Greta Steyn in Johannesburg

Anglogold, the world's largest gold producer and part of South Africa's Anglo American conglomerate, has announced it is to use a syndicated bank loan of $350m to help finance its $550m acquisition of the gold mining and exploration interests of its sister company Minorco.

Anglogold said the balance would be funded from the company's cash resources.

Analysts said the effect of the loan would be to help Minorco, which is listed in Luxembourg, to reduce its debt significantly while Anglogold would for the first time have substantial debt on its balance sheet. Minorco is to be absorbed by Anglo American when it moves its head office and primary listing to London next year.

Anglogold's purchase of Minorco's gold interests extends the South African gold company's business out of Africa into North and South America.

The deal came at the end of a busy year for Anglogold, as the company consolidated its South African, Namibian and other African gold mines into a single entity and listed on the New York stock exchange, the first South African company to do so.

The acquisition gives Anglogold, which is the world's foremost deep mining company, increased exposure to open pit and shallow underground mining. Analysts speculated yesterday that further offshore acquisitions, possibly in Australia, were in the pipeline, as the gold company continued to diversify its asset base and mining risk.

Instead of Anglogold's operations being confined to three countries in Africa, they will now be located in six countries on three continents. The South African company's acquisitions include: Independence Mining Co, which has Pikes Peak Mining in Colorado; 70 per cent of the Jerrit Canyon joint venture in Nevada; 50 per cent of Sierra Grande in Brazil; all of Morro Velho in Brazil; and 46 per cent of Cerro Vanguardia in southern Argentina.

Anglogold said the mining assets purchased from Minorco met its acquisition criteria – cash costs were low (below $200 an ounce); there was potential to expand while adding about 800,000 ounces of gold to current gold production; and mines had a remaining life of more than five years.

The additional production will boost the company's output by 12 per cent to 7.5m ounces a year – a 10th of world gold production.

The company said the purchase price was expected to be reduced by $50m after adjustment for long-term debt and net current assets on December 31.

INTERVIEW CHAIRMAN JEAN-CYRIL SPINETTA DISCUSSES THE FLAG CARRIER'S PROSPECTS

Air France ready to take off

By David Owen in Paris

If Jean-Cyril Spinetta, the Air France chairman, thought this was a busy year, he may want to brace himself for more of the same in 1999.

Barring the unexpected, the last year of the millennium should bring a real turning-point in the French national carrier's sometimes turbulent history.

The main catalyst for change should be the airline's long-awaited partial privatisation. However, Mr Spinetta has also indicated that 1999 should also be the year in which the company decides which of its two US partners – Continental Airlines and Delta Air Lines – it is to join in a new global airline alliance.

Meanwhile, the expansion of Air France's hub at Roissy, north of Paris, will take a big step forward with the planned opening of a third runway in April.

All told, Mr Spinetta says the airport will add 50 per cent to its "slot" capacity in three years. "That is a situation that for the moment you don't find anywhere else in Europe," he says.

He says the aim of the company, as this new capacity comes onstream, is to maintain its current 51 per cent share of aircraft movements at Roissy.

In spite of what looks like a packed agenda for Air France, the chairman admits with disarming – but characteristic – candour that he has no clear idea how his company's expected initial public offering will change the way it is managed.

'One of the problems of Air France is not that we are lacking in alliances. It is that the system is not visible for our clients'

He has clearly reflected on the subject, however. "Being a quoted company means first having a daily reference point for everybody. This means the economic community is making a continuous judgment on the company's performance," he says.

Going ahead with the partial privatisation would be a "bet" on the group's ability to create value over the long term. And it would impose an obligation to keep investors well informed.

"All of a sudden, the company would know it was permanently under the spotlight," he says.

Asked whether he sees a need to recruit more people with experience of the private sector to cope with the challenges, Mr Spinetta points out that the Air France board already contains a number of "pretty strong personalities" who have such experience.

He singles out three of them: Francis Mer, chairman of Usinor, the French steelmaker, Jean-François Dehecq, head of Sanofi, the pharmaceuticals company, and Pierre Richard, chairman of Dexia, the Belgo-French banking group.

Mr Spinetta expresses confidence that the era of conflicts with the company's pilots – a highly paid and powerful segment of the Air France workforce – is over. This summer, the airline found itself in the embarrassing position of battling with the pilots just days before the World Cup soccer tournament started.

He bases his confidence on this year's agreement allowing the pilots to acquire up to 12 per cent of the company's capital in return for effective wage cuts. And he thinks this should provide the basis for a "structurally modified" long-term relationship.

The company's recently published first-half results did much to underline its new-found financial solidity, in spite of the impact of the pilots' strike. Freight traffic, which accounts for more than 10 per cent of the group's overall turnover, was down a sharp 12.4 per cent, however, partly due to the Asian crisis.

With other categories of employees, he refers to a problem confronting many European companies: how to manage a pay policy in the long term at a time of near-zero inflation. He argues that employees are generally not happy with a static pay packet, even if their purchasing power is maintained or a little improved.

He suggests the issue needs to be addressed by frank discussions and moves to put relations between staff and the company in a framework of multi-annual contracts.

On Air France's alliance strategy, he says it is too early to know with which US airline the company will seek to build its planned global alliance.


Jean-Cyril Spinetta: braced for another busy year

He agrees with those who argue that one of the main reasons for building alliances between European and American airlines is simply that full-scale mergers are "legally impossible".

This goes some way towards explaining why cross-shareholdings between partners are out of favour.

Air France has established code-sharing agreements with more than 20 airlines worldwide, but is not yet in any global partnership.

Mr Spinetta evidently feels a branded link-up, which is more readily comprehensible to customers, is now desirable.

"One of the problems of Air France is not that we are lacking in alliances. It is that the system is not visible for our clients," he says.

Oil prices strengthen on signs of unrest

MARKETS REPORT

By Paul Solman

World oil prices strengthened in London yesterday as the market noted signs of further unrest in the Middle East. However, most London commodity markets were quiet on their first day of trading since Christmas.

In late trading on the International Petroleum Exchange, the benchmark February contract for Brent blend was $10.42 a barrel compared with last Thursday's close of $10.11.

Brent's rise echoed a gain of 23 cents in the New York Mercantile Exchange's WTI crude contract on Monday, after Iraq fired at US jets patrolling "no-fly" zones in the country. Baghdad said yesterday it did not recognise the no-fly zones and would continue to shoot at western jets.

Base metals rose in light trading on the London Metal Exchange. Three-month copper ended up $56 at $1,527 a tonne, while nickel finished $45 higher at $3,960 a tonne.

On the London International Financial Futures and Options Exchange, March coffee ended down $9 at $1,791 a tonne while March cocoa finished up £1 at £903 a tonne.

Global production of almonds will fall by about 30 per cent this season, according to the US Department of Agriculture. Traders said the drop in the 1998/99 season, which began in September, was unlikely to have a significant impact on the market as there were adequate stocks left from last season's bumper crop.

USDA said the almond crops in the US and Spain, the two largest producers, had been cut by unfavourable weather, though Turkey, the third largest producer, was expected to raise production by 27 per cent.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne) · ALUMINIUM ALLOY ($ per tonne) · LEAD ($ per tonne) · NICKEL ($ per tonne) · TIN ($ per tonne) · ZINC, special high grade ($ per tonne) · COPPER, grade A ($ per tonne) · LME AM Official £/$ rate

HIGH GRADE COPPER (COMEX)

PRECIOUS METALS

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.) · PLATINUM NYMEX (50 Troy oz.; $/troy oz.) · PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) · SILVER COMEX

ENERGY

CRUDE OIL NYMEX · CRUDE OIL IPE ($/barrel) · HEATING OIL NYMEX · GAS OIL IPE ($/tonne) · NATURAL GAS IPE · NATURAL GAS NYMEX · UNLEADED GASOLINE NYMEX

GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne) · WHEAT CBT · MAIZE CBT · BARLEY LIFFE · SOYABEANS CBT · SOYABEAN OIL CBT · SOYABEAN MEAL CBT · POTATOES LIFFE · FREIGHT (BIFFEX) LIFFE

PULP AND PAPER

SOFTS

COCOA LIFFE (10 tonnes; £/tonne) · COCOA CSCE · COCOA (ICCO) · COFFEE LIFFE · COFFEE 'C' CSCE · COFFEE (ICO) · WHITE SUGAR LIFFE · SUGAR '11' CSCE · COTTON NYCE · ORANGE JUICE NYCE

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	106.20	-0.50	107.25	104.00	818	7,578
Mar	108.10	-0.65	108.75	106.50	1,203	12,085
May	109.50	-0.75	109.75	107.90	220	2,546
Jul	109.85	-0.80	118.75	109.50	107	1,745
Sep	109.85	-1.30	110.25	110.15	49	213
Nov	109.85	-1.30	111.50	111.50	–	532
Total					2,351	24,807

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs) · LEAN HOGS CME · PORK BELLIES CME

LONDON TRADED OPTIONS

LONDON SPOT MARKETS

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

Reuters (Base: 18/9/31 = 100)

Dec 29	Dec 24	month ago	year ago
1476.1	1472.0	1475.6	1759.3

CRB Futures (Base: 1967 = 100)

Dec 28	Dec 24	month ago	year ago
189.57	189.26	–	–

GSCI Spot (Base: 1970 = 100)

Dec 28	Dec 24	month ago	year ago
130.85	128.24	153.48	178.71

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+3,775	to	604,380
Aluminium alloy	+220	to	95,640
Copper	+2,950	to	578,775
Lead	-25	to	108,350
Nickel	+1,200	to	65,502
Zinc	+325	to	318,700
Tin	-15	to	7,770

Heavy Fuel Oil	$55-57	+2
Naphtha	$104-106	+1
Jet fuel	$111-112	+1.5
Diesel	$106-107	+4
NATURAL GAS (Pence/therm)		
Bacton (Jan)	12.80-2.95	-0.312
Petroleum Argus. Tel. London (0171) 359 8792		
OTHER		
Gold (per troy oz)♣	$287.35	+0.35
Silver (per troy oz)♣	502.00c	+10.50
Platinum (per troy oz.)	$354.00	+7.00
Palladium (per troy oz.)	$327.00	+21.00
Copper	71.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.20r	
Tin (New York)	243.5	
Cattle (live weight)	91.83p	+0.88*
Sheep (live weight)	64.21p	-0.01*
Pigs (live weight)†	49.90p	-3.04*
Lon. day sugar (raw)	$181.40	-0.50
Lon. day sugar (wte)	$237.00	
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	46.00p	
Rubber (Feb)♥	46.50p	
Rubber (KL RSS No1)	246.50m	-2.00
Coconut Oil (Phil)§	785.0y	-2.5
Palm Oil (Malay.)§	397.5	+7.5
Copra (Phil)§	475.0y	
Soyabeans (US)	155.5y	
Cotton Outlook'A' Index	56.05	
Wooltops (64s Super)	315p	

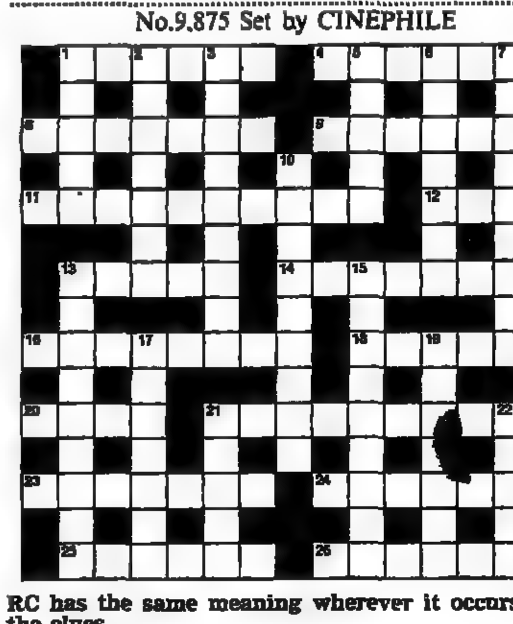
Wool from Maibet & Co

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,875 Set by CINEPHILE



RC has the same meaning wherever it occurs in the clues

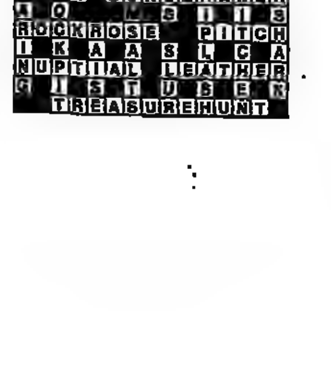
ACROSS

1 Pipework where the rubbish is in a boat (6)
4 Return to drawer for mark of appreciation (6)
8 Apple producer to tidy his hair, the old dandy (7)
9 Very silly, as one before this one (7)
11 RC may bring a hundred men health (10)
12 See 20
13 A Caledonian RC (5)
14 Dime enclosed in pieces of canvas (3,5)
16 RC's appreciation of bowler (8)
18 Thin type of shrew a ferret could catch (5)
20, 12 Don't allow opposition to the American line (8)
21 Politician in cover-up for disturbance by his countryman (10)
23 Argentine student is back to the light (7)
24 Remove surface from motorway first with red berries (7)
25 Common name for gold sickness? (6)
26 Attitude of Laurel to the establishment (6)

DOWN

1 Sound horn, the top of it ivory (5)
2 Countryman gets stomach pain after some burgers (7)
3 Second in command of anaesthetic company? (6,3)
5 RC's collected poems (5)
6 RC isn't commonly concerned with English (7)
7 RC fellow takes sugar (9)
10 Beater eating top of the cheese – it's lethal in a mine (9)
13 Commercial speech in worship (9)
15 Commercial opportunity for RC (9)
17 Bring to the door to make savings? (7)
19 Tree with climbing handle going with engine (7)
21 A cricketer's upset, partially, not exactly (5)
22 Fruit of love to be (5)

Solution 9,874



Small companies rethink needed, says KPMG

By David Blackwell

Institutions need to rethink their approach to smaller quoted companies following the weakest quarter for flotations and new share issues for almost 10 years, according to KPMG, the professional services group.

"There are a lot of undervalued stocks among the smaller companies and a professional investor should be looking at how you take advantage of that," said Neil Austin of KPMG Corporate Finance yesterday.

KPMG warned that the state of the new issues market is threatening to leave smaller companies in "a financial straitjacket – unable to raise public equity capital on reasonable terms and forced to resort to private equity or debt finance".

It said government commitment to improve the lot of the more than 2,000 smaller quoted companies is vital. "In effect, the state of the stock market for smaller companies is beginning to damage the real economy," KPMG said.

An annual survey of the new issues market by KPMG showed there were only 14 new stock exchange listings in the final quarter. That compares with 29 and 33 in the final quarters of 1997 and 1996. Excluding demergers, venture capital trusts and investment trusts, only three trading companies floated, raising less than £40m ($67m) between them – the smallest amount recorded by the firm this decade.

During the year there were 68 flotations, raising £3.87bn, down from 100 in 1997, when £6.73bn was raised.

Trading companies floated in the final quarter were MSW Technology, a computer software and information technology consultancy company; Financial Objects, the banking software group; and Bioglan Pharma, a pharmaceuticals company specialising in dermatological products. The arrival of these companies was more than offset by the departure of about another 40 companies, many of which were taken private.

Mr Austin said institutional investors no longer liked smaller quoted companies. Consolidation in the financial services sector was leading to fewer staff managing bigger funds, which meant they wanted to invest larger sums of money at a time.

The lack of liquidity in small stocks was compounded by a lack of research, with often just the house broker publishing. It is now becoming difficult for any company to float below a market capitalisation of £100m.

The situation should improve next year. However, there islittle chance of improvement before the second half.

Munich contract for Limit

By Christopher Brown-Humes

Limit, the biggest corporate investor in the Lloyd's insurance market, has bought an innovative reinsurance contract from Munich Re that should help to smooth its profits over the five underwriting years to 2002.

The contract, which was developed and negotiated by Instrat, part of the Sedgwick Group, has used a technique familiar in capital markets. It will protect the group's underwriting against significant losses during the 1998-2002. At the same time, Munich Re will share in any significant profits that Limit makes. The contract is subject to limits, though details are not being released.

It is thought to be the first contract of its kind involving a large corporate capital company at Lloyd's.

Jonathan Agnew, Limit's chairman, said: "This reinsurance contract will give considerable protection to Limit's shareholders at an acceptable cost."

Tim Martin: 'trading in good and bad times' — Brendan Corr

Wetherspoon to open 80 pubs

By David Blackwell

JD Wetherspoon, the pubs chain, is to press ahead with its plans to invest £100m ($168m) and open a further 80 outlets and create 2,000 jobs in the coming year.

The move, which will increase Wetherspoon's pubs to almost 400, comes in spite of the pall of gloom surrounding the UK pub industry.

The tough trading conditions in Britain's pubs had so far this month brought bad news from both national and regional groups. Also, figures from the British Licensed Retail Association show there had been no end in beer being smuggled from mainland Europe.

Jim Clarke, Wetherspoon finance director, said it was too early to assess Christmas trading, but like-for-like sales had improved considerably after a flat opening to the financial year.

Tim Martin, founder and chairman, said Wetherspoon had traded through both good and bad economic times "and it hasn't made a lot of difference to the overall success of the business".

Analysts were unimpressed that the expansion plans were unchanged from September, when the group announced pre-tax profits for the year to August 2 of £35.1m (£17.6m).

Pools operators near agreement

By John Willman, Consumer Industries Editor

The UK's football pools operators believe they are close to an agreement with the government that would slash the betting duty paid on punters' stakes and sweep away restrictions on the industry in return for investment to preserve its future.

Under the agreement drawn up by the Pools Promoters' Association, pools betting duty would be cut from 26% to 17% per cent. Operators would be allowed to run pools on games other than football and to pay winnings through shops in the same way as the National Lottery.

The cut in duty will be used to invest in information technology to modernise the pools industry and help it compete with the lottery which has more than 35,000 terminals in retailers across the UK.

The aim is to secure the future of the industry, which has seen the amount spent on football pools fall almost two-thirds since the introduction of the lottery. The amount staked has fallen from £924m in 1993-94 to £366m last year.

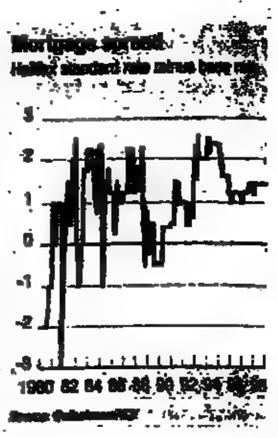
The impact has been felt most heavily on Merseyside, a Labour heartland where Liverpool provides the base for the two largest operators. They are Littlewoods, the private pools and retailing company, and Vernons, part of Ladbroke, the hotels and betting group.

Also hit has been Zetters, a small listed group based in London with 3 per cent of the market. It yesterday warned there was no future for the industry without both deregulation and a significant reduction in duty.

COMMENT

UK mortgages

The prediction by Halifax, the UK's biggest mortgage lender, that house price rises will slow to 4 per cent in 1999 is a reminder of the sluggishness of the housing market. Borrowers should be rubbing their hands with glee. Surely competition among mortgage lenders will become keener still. For instance, if base rates come down to 4½ per cent by the end of next year – the low end of the forecast range – the standard mortgage rate should fall from an average of 7.7 per cent to 6 per cent. This would simply maintain the prevailing 1½ percentage point spread.



But could this margin be squeezed further? The answ[illegible] lies in the spread that really matters: between mortga[illegible] rates and the rates paid to savers. Although this has n[illegible]rowed by more than half a point over the past couple [illegible] years, it remains comfortably above 2 per cent. So does th[illegible] mean that the mortgage war has been a phoney one, wi[illegible] banks really giving little away? For most customers t[illegible] answer is yes. Savers, who outnumber borrowers by abo[illegible] six to one, have broadly paid for mortgage reductions. A[illegible] old borrowers on the standard rate have subsidised speci[illegible] offers to new ones. So far the mortgage banks have limit[illegible] the damage to profitability by confining their fiercest battl[illegible] to a small section of the customer base. But the high rate [illegible] remortgages and a backlash from savers could see a hard[illegible] squeeze in the coming year.

JD Wetherspoon

Mention job creation in a news starved week and you a[illegible] bound to attract some free publicity. Shareholders [illegible] JD Wetherspoon, the UK pubs group, must hope the pl[illegible] will help attract a few more customers to the fast-expandi[illegible] chain. After all, like-for-like sales have only recently turn[illegible] positive again. But they should not be impressed by yeste[illegible]day's flannel. Plans to open up to 80 pubs a year – sendi[illegible] capital spending to £100m – go back nearly two yea[illegible] Indeed, the news they might have hoped for was a tempo[illegible]ing of the opening programme as conditions have deteri[illegible]rated in the over-pubbed UK market. Instead, they have h[illegible] a reminder of the risks. Net debt could reach £160m by th[illegible] year-end, reducing interest cover to three times. What shar[illegible]holders really need is reassurance that Wetherspoon c[illegible] still deliver rapid earnings growth.

Laird pays DM17m for German distributor

By Thorold Barker

Laird, a automotive sealings and mouldings company, has bought Bavaria Elektronic, a manufacturer and distributor of electromagnetic interference (EMI) shielding products, for DM16.8m ($10m) cash.

The Munich-based company will become part of APM, the EMI business which Laird bought from Monsanto, the US life sciences group, in 1996.

EMI shielding products are used to protect electronic goods such as computers and telephones from electromagnetic interference, which can affect performance. They also protect the user from any harmful effects.

They are made from low-density foam, which Laird developed in its window seals business, wrapped in metallic-coated fabric.

APM's purchase of Bavaria, one of its largest distributors, will improve distribution in Europe. About one-third of APM products are sold through distributors, with the rest bought direct by big customers such as Compaq and IBM.

The deal will increase APM's exposure to the fa[illegible] growing telecommunicatio[illegible] industry, where Bavaria [illegible] strong, and will broaden [illegible] product range.

EMI shielding produc[illegible] represent less than 5 p[illegible] cent of Laird group tur[illegible]over.

Bavaria, which was pr[illegible]vately owned, is expected [illegible] have sales of about DM21[illegible] this year.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Caledonian Trust Φ	Yr to June 30	4.36□	(3.49□)	0.948	(0.948)	8.06	(8.13)	-	-	-	-	-
Just Φ	6 mths to Oct 31 ☆	4.64	(1.09)	0.053	(0.45L♣)	0.01†	(0.18L)	-	-	-	-	-
Zetters	6 mths to Sept 30	7.96	(6.77)	0.766	(1.05)	7.2	(10)	4	Mar 5	5.5	-	11

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Enterprise VCT	Yr to Oct 31	94.33	(94.1)	0.874	(0.636)	3.61	(2.62)	1.6	Jan 29	2.16	3	2.16

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ΦAim stock. □Total income. ☆Comparatives for six months to June 30 1997. ♣After exceptional charge. †On increased capital.

EURO PRICES

EQUITIES

Fears raised over 1999 earnings

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets posted small gains yesterday in quiet holiday trading as thoughts remained firmly fixed on the euro's introduction this weekend. Despite the absence of many big institutions, the mood remained upbeat, with UK stocks leading the way.

European central bankers admitted 1999 would be tough on the economic front, confirming analysts' fears of lower corporate earnings. But the bankers suggested interest rates were likely to be steady well into next year and that neither inflation nor deflation posed an immediate threat.

The FTSE Eurotop 300 index of leading European shares rose 5.05 to 1,191.62, while the FTSE Eurotop 100 index rose 14.7 to 2,749.08. The FTSE Ebloc 100 index of euro-zone stocks rose 1.87 to 1,000.64.

The strategy team at HSBC said corporate profits would rise about 8 per cent next year. European markets were in "a secular bull trend" and would remain there until US interest rates rose – as they would have to, the bank predicted, to restrain the US economy and correct the financial imbalance in the personal sector.

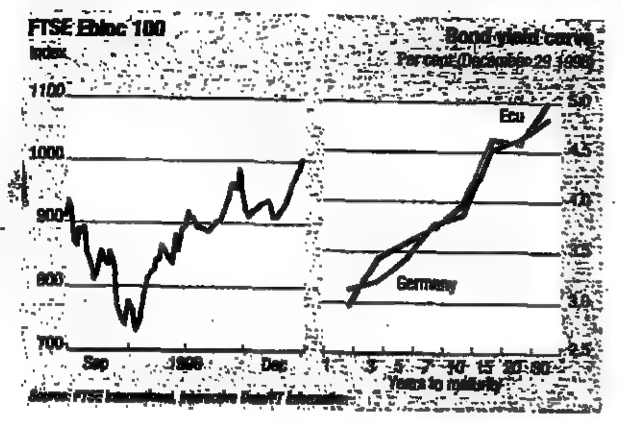
"Rising [US] interest rates are likely when they come this will trigger a major bear market," the bank said. "In the meantime equities in Europe are likely to remain in an upward trend although the differential between winners and losers is likely to increase."

Defence stocks were among the highlights, largely on the strength of moves to bring forward a pan-European merger linking GEC and Thomson-CSF. Shares in the UK electronics group rose Ecu 0.10 to Ecu 7.87, while the French engineering group climbed Ecu 0.80 to Ecu 34.80.

Telecoms stocks recovered their poise after Monday's falls in German telecoms shares, and the sector recouped some losses to close 0.12 per cent higher. Deutsche Telekom gained Ecu 0.50 to Ecu 28.52, while Vodafone rose Ecu 0.20 to Ecu 14.10.

Profit-taking after Monday's surge dented DaimlerChrysler, which shed Ecu 0.60 to close at Ecu 84.12, and other German car makers were also lower. But Renault bucked the trend to add Ecu 1.40 to Ecu 37.18.

FTSE Ebloc 100 — Bond yield curve



FTSE Actuaries Share Indices — European series

Dec 29

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1191.62	+0.43	+5.05	2.26	25.50	1226.08
FTSE Eurotop 100	2749.08	+0.54	+14.70	2.34	40.15	985.43
FTSE Ebloc 100	1000.64	+0.19	+1.87	2.67	15.03	1015.08
FTSE EuroMid	1134.78	+0.02	+0.25	2.04	2.10	1175.80
FTSE EuroMid Ebloc	1202.69	-0.12	-1.43	2.34	0.51	1228.13
FTSE EuroMid Ex UK	1180.44	-0.20	-2.42	2.27	0.38	1221.83
FTSE Eurotop 300 Regions						
Eurobloc	1251.23	+0.17	+2.18	2.02	21.55	1277.57
UK	1110.74	+1.25	+13.69	2.74	35.35	1168.22
Europe Ex-Eurobloc	1142.71	+0.70	+7.98	2.68	28.38	1183.57
Europe Ex-UK	1238.36	+0.03	+0.38	2.06	19.88	1261.51
FTSE Eurotop Industry Sectors						
RESOURCES	871.86	+0.14	+1.24	3.39	29.22	911.51
Extractive Industries	745.29	+1.70	+12.48	4.05	14.54	781.02
Oil, Integrated	844.03	+0.08	+0.66	3.34	21.73	864.47
GENERAL INDUSTRIES	1071.36	+0.08	+0.89	2.49	21.44	1094.15
Construction	379.27	+0.09	+0.03	2.22	11.08	389.80
Building Matls & Merchs	865.57	+0.12	+1.03	2.62	0.98	903.31
Chemicals	847.74	-0.30	-2.54	2.75	17.45	882.70
Diversified Industrials	982.19	+1.37	+13.26	2.33	22.61	1004.06
Electronic & Elect Equip	846.79	-0.27	-2.30	1.88	5.41	851.94
Engineering	881.75	+0.92	+8.00	3.04	13.02	893.92
Paper, Pkg & Printing	785.65	-0.84	-6.70	2.89	1.21	798.84
CONSUMER GOODS	1239.34	+0.79	+9.76	1.52	18.56	1272.44
Automobiles	923.09	-0.80	-7.46	2.47	10.25	931.59
Alcoholic Beverages	971.74	+0.29	+2.77	2.79	17.88	982.71
Food Producers	1006.16	+0.54	+5.39	1.53	11.84	1017.98
Household Goods & Texts	1109.33	+0.93	+10.19	1.76	8.94	1118.80
Healthcare	904.04	+4.22	+37.46	1.39	13.91	917.57
Pharmaceuticals	1103.93	+0.92	+10.03	1.17	5.27	1109.93
Tobacco	1315.19	+1.02	+13.29	3.56	22.77	1340.24
SERVICES	1221.14	+0.34	+4.16	1.89	24.89	1256.87
Distribution	778.26	+0.74	+5.71	2.79	11.37	787.10
Leisure & Hotels	804.53	+0.78	+6.21	2.81	12.27	815.05
Media	1024.08	+0.65	+5.66	2.25	10.68	1035.02
Retailers, Food	1048.15	+0.86	+8.99	1.95	15.09	1064.15
Retailers, General	1045.36	+1.33	+13.73	3.89	29.46	1068.92
Telecommunications	1180.26	+0.12	+1.47	1.59	16.16	1197.24
Steel & Other Metals, Ports & Fleets	783.79	+0.14	+1.08	3.48	24.30	818.98
Support Services	1054.41	+0.28	+2.98	1.39	9.87	1065.60
Transport	970.96	+1.08	+9.82	2.57	18.24	988.25
Information Technology	867.75	-1.87	-16.38	0.44	2.33	859.79
UTILITIES	1513.69	+0.22	+3.28	2.92	62.85	1585.20
Electricity	1149.55	+0.36	+4.03	3.09	31.89	1186.35
Gas Distribution	1244.89	-0.18	-2.22	1.51	98.32	1370.47
Water	1009.91	+0.15	+1.49	4.94	47.78	1057.85
FINANCIALS	1278.46	+0.58	+7.35	2.98	27.91	1314.34
Banks, Retail	857.92	+0.10	+0.87	3.87	13.54	880.20
Insurance	1020.39	+1.28	+12.91	1.35	11.79	1082.79
Life Insurance	1228.95	+1.08	+13.11	1.59	12.98	1244.91
Other Financial	883.51	+1.57	+14.22	2.24	15.95	877.92
Investment Companies	995.89	+0.90	+8.92	1.99	25.55	1019.76
Property	642.94	-0.44	-2.84	3.74	21.28	669.65

Further information is available on [illegible]. © FTSE International Limited 1998. All rights reserved. "FTSE" and "Footsie" are registered trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. [illegible] FTSE Eurotop indices are compiled by FTSE International. Market closed 29/12/98: Ireland.

OTHER INDICES

FTSE EUROTOP 300

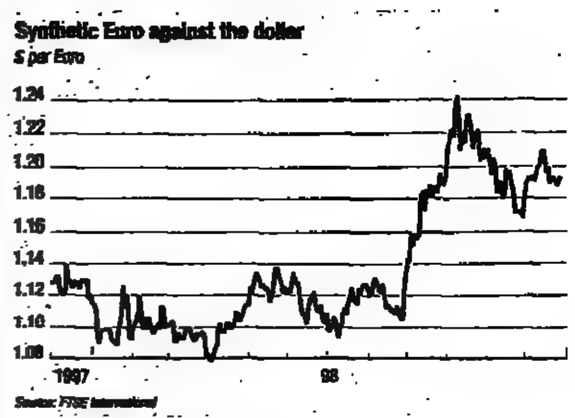
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Dec 29	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.049724	+0.0025	+0.02	+0.0033	+0.02
Belgium	BEF	41.188894	-0.0278	-0.07	+0.0000	+0.00
Czech Republic	CZK	35.813878	+0.0868	+0.24	+0.1744	+0.49
Denmark	DKK	7.602450	+0.0052	+0.07	+0.0075	+0.10
Finland	FIM	6.070137	+0.0005	+0.01	-0.0003	-0.01
France	FRF	6.696668	+0.0006	+0.01	+0.0001	+0.00
Germany	DEM	1.996867	+0.0004	+0.02	+0.0004	+0.02
Greece	GRD	335.129891	-0.2519	-0.08	+0.0889	+0.03
Hungary	HUF	258.538234	-0.9824	-0.38	+2.1624	+0.84
Ireland	IEP	0.803118	-0.0005	-0.07	-0.0009	-0.11
Italy	ITL	1977.281875	-0.1513	-0.01	-0.1684	-0.01
Luxembourg	LUF	41.188894	-0.0278	-0.07	+0.0000	+0.00
Netherlands	NLG	2.249805	+0.0001	+0.01	-0.0004	-0.02
Norway	NOK	9.087710	-0.0040	-0.04	-0.0587	-0.64
Poland	PLN	4.173824	+0.0230	+0.55	+0.0502	+1.22
Portugal	PTE	204.798012	+0.0227	+0.01	+0.0930	+0.05
Romania	ROL	13088.729453	+85.1432	+0.65	+509.1933	+4.05
Russia	RUB	25.198183	-0.1312	-0.52	+0.2894	+1.16
Slovakia	SKK	44.164908	+0.2787	+0.64	+0.5739	+1.32
Spain	ESP	169.878811	-0.1013	-0.06	-0.0730	-0.04
Sweden	SEK	9.658079	-0.0175	-0.18	+0.0949	+0.99
Switzerland	CHF	1.627851	-0.0044	-0.27	-0.0003	-0.02
United Kingdom	GBP	0.709610	-0.0003	-0.05	-0.0006	-0.08
ECU	ECU	1.018526	-0.0001	-0.01	+0.0000	+0.00
Americas						
Brazil	BRL	1.442625	+0.0061	+0.45	+0.0041	+0.29
Canada	CAD	1.850001	+0.0089	+0.48	+0.0038	+0.20
Mexico	MXN	11.792386	+0.1005	+0.86	+0.1008	+0.86
United States	USD	1.194227	+0.0051	+0.43	+0.0024	+0.20
Pacific/Middle East/Africa						
Australia	AUD	1.854353	-0.0069	-0.38	+0.0155	+0.80
Hong Kong	HKD	9.252872	+0.0416	+0.45	+0.0241	+0.25
Japan	JPY	137.557053	-0.0538	-0.04	-1.8190	-1.31
Singapore	SGD	1.979431	+0.0072	+0.36	+0.0105	+0.54
South Africa	ZAR	7.019079	+0.0267	+0.38	[illegible]	-0.46

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. [illegible]

Synthetic Euro against the dollar



EUROZONE CURRENCY CONVERGENCE

BONDS

INTEREST RATE SWAPS

EUROZONE CORPORATE BONDS

GOVERNMENT BOND SPREADS vs ECU

Dec 29	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
Portugal	-0.20	-0.04	+0.34	+0.16	+0.15	-0.09
Spain	-0.42	-0.19	+0.05	+0.07	+0.10	-0.14
"OUTs"						
Denmark	+0.42	+0.30	+0.49	+0.24	-0.05	+0.38
Greece	+6.83	+3.87	+3.19	+2.57	+2.20	+1.87
Sweden	+0.22	+0.28	+0.34	+0.28	+0.18	-0.24
UK	+1.52	+0.90	+0.74	+0.42	-0.12	-0.72

Source: Interactive Data/FT Information. Table takes constant convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

CURRENCIES & MONEY

Reports of real peg's death premature

MARKETS REPORT

By Alan Beattie

In markets where year-end thinness means that rumours seem to be outnumbering actual trades, a story circulating out of New York that Brazil was about to abandon its currency peg got more than the usual attention.

The story was encouraged by a record daily outflow of dollars from the Brazilian economy on Monday and repeated heavy falls in the country's stock market.

The Brazilian foreign exchange market showed a loss of $1bn on Monday, the highest single daily leakage since the end of October.

This brought the accumulated outflow for December to over $4.5bn, compared with a total net loss in November of just $1.91bn.

The loss of dollars from the economy further frightened traders in the stock market, which added substantial losses yesterday to the fall of nearly 4 per cent on Monday.

The combination of bad news from the stock and currency markets no doubt contributed to the stories that Brazil was on the point of abandoning its currency regime, a crawling peg against the US dollar, and devaluing the currency.

But analysts pointed out that much of the dollar outflow from the foreign exchange markets should have been fully expected.

Special factors increasing the leakage included banks buying dollars to cover year-end obligations outside Brazil, corporate dividend remittances overseas and the repayment of maturing loans by the Brazilian government.

"This came at the same time as the Brazilian authorities are due to set the wide bands for the currency for 1999," said Richard Gray, emerging markets economist at Bank of America in London. "The two issues seem to have been confused and this may have contributed to the rumours."

Mr Gray said that the bottom end of the wide band for the real against the dollar could be set as low as R$1.36, considerably lower than the level of around R$1.31 which would be obtained from projecting forward the bands for 1998.

He thought that a relatively soft peg would decrease rather than increase the chance of Brazil abandoning its exchange rate regime.

"A band as wide as R$1.36 will allow some reflation of the Brazilian economy and allow it to regain international competitiveness," said Mr Gray.

He estimated that this depreciation could leave the currency at its most competitive level in real terms since the peg was adopted in 1995.

■ A chill wind blew through the Russian government's cosy predictions of the strength of the rouble yesterday. A former central bank deputy poured scorn on the currency assumptions which underlie the draft budget for 1999.

"It is clear that the dollar will not cost Rbs21.5 in the coming year, as the budget envisages," said Sergei Aleksashenko, former deputy head of the Russian central bank.

Mr Aleksashenko said that a rate of 30-40 roubles to the dollar in the coming year was more likely, and that the predicted inflation rate of 30 per cent for 1999 could be 100-200 per cent.

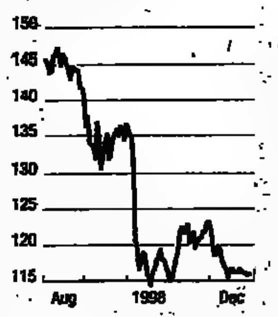
His comments came as money supply data for November showed that the Russian printing presses continued to roll, the narrow money (M0) stock rising by nearly 30 per cent on a year earlier. The monthly changes in money stock have risen sharply since the devaluation of the rouble in August, threatening higher inflation in the future.

"All the signals are telling the main players in the foreign exchange market that the rouble is likely to fall," said a currency analyst at a US bank in London. "The quality of a budget in Russia is rarely correlated with the ease with which it is passed by the Duma, and this one was adopted very quickly," he added.

The analyst said that as time went on, the budget appeared softer and softer, which was likely to drive the currency lower.

"The Rbs32bn which appears in the budget as direct central bank financing seems unrealistically low compared with what is likely to happen," he said.

Dollar
Against the yen (¥ per $)



Source: Datastream/ICV

■ POUND IN NEW YORK

Dec 29	Latest	Prev. close
£ spot	1.6840	1.6765
1 mth	1.6828	1.6743
3 mth	1.6803	1.6720
1 yr	1.6761	1.6696

■ OTHER CURRENCIES

Dec 29	£	$
Czech Rp	50.4253 - 50.5007	29.9740 - 30.0040
Hungary	364.093 - 364.586	216.390 - 216.590
Iran	[illegible]	[illegible]
Kuwait	0.5074 - 0.5082	0.3015 - 0.3018
Peru	5.2992 - 5.3074	3.1500 - 3.1530
Poland	5.8754 - [illegible]	3.4925 - 3.4975
Russia	35.1601 - 35.8540	20.9060 - 21.3000
UAE	6.1790 - 6.1830	3.6720 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Dec 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.7976	+0.0104	871 - 080	19.8183	19.7007	19.747	3.1	19.6811	2.8	19.3988	2.0	103.3
Belgium	(BFr)	58.0398	-0.0192	[illegible] - 807	58.1490	57.8380	57.907	3.1	57.6459	2.8	56.7869	2.2	103.4
Denmark	(DKr)	10.7128	+0.011	062 - 193	10.7254	10.6676	10.6812	2.3	10.6505	1.9	10.5447	1.5	107.8
Finland	(FM)	8.5535	+0.0037	473 - [illegible]	8.5850	8.5150	8.5284	[illegible]	8.4886	2.8	8.3658	2.2	82.9
France	(FFr)	9.4367	+0.0042	322 - 411	9.4458	9.3945	9.4071	3.2	9.3637	2.9	9.2221	2.2	106.9
Germany	(DM)	2.8138	+0.0014	125 - 158	2.8168	2.8004	2.805	3.2	2.7921	[illegible]	2.7494	2.2	104.3
Greece	(Dr)	472.236	-0.193	952 - 519	472.918	469.425	474.439	-5.1	478.25	-4.9	493.861	-4.5	82.0
Ireland	(I£)	1.1317	-0.0004	[illegible] - 326	1.1328	1.1296	[illegible]	3.1	[illegible]	2.9	1.1076	2.2	95.2
Italy	(L)	2785.21	+0.77	471 - 771	[illegible]	2773.98	2777.51	3.4	2764.84	3.0	2723.91	2.2	78.2
Luxembourg	(LFr)	58.0398	-0.0192	889 - 907	58.1490	57.8380	57.907	3.1	57.6459	2.8	56.7869	2.2	103.4
Netherlands	(Fl)	3.1703	+0.0013	[illegible] - 717	3.1751	3.1575	3.1604	[illegible]	3.1459	2.9	3.0979	2.2	103.0
Norway	(NKr)	12.8056	[illegible]	001 - 111	12.8540	12.6768	[illegible]	-2.2	12.8699	-2.0	12.9638	-1.2	91.2
Portugal	(Es)	288.583	+0.131	414 - 753	288.893	287.409	287.71	3.1	286.462	2.8	[illegible]	2.2	92.8
Spain	(Pta)	239.376	-0.061	220 - 104	239.860	238.380	238.823	3.1	237.764	2.8	234.188	2.2	77.4
Sweden	(SKr)	13.6094	[illegible]	[illegible] - 218	[illegible]	[illegible]	[illegible]	[illegible]	13.5394	2.6	13.3746	1.9	79.1
Switzerland	(SFr)	2.2886	[illegible]	825 - 860	2.2974	[illegible]	2.2886	5.0	2.2731	4.8	2.2142	3.7	109.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	101.2
Ecu	-	1.4325	+0.0006	317 - 332	1.4391	1.4266	1.4291	3.3	1.4214	3.0	1.39[illegible]	2.3	-
SDR†	-	1.199400	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6826	+0.0076	820 - 830	1.6845	1.6737	-	-	-	-	-	-	-
Brazil	(R$)	2.0328	+0.0094	321 - 334	2.0351	2.0222	-	-	-	-	-	-	-
Canada	(C$)	2.6115	+0.0135	098 - 132	2.6145	2.5900	2.6092	1.4	2.6007	1.1	2.5936	0.6	75.2
Mexico	(New Peso)	16.6168	+0.1472	026 - 310	16.6340	16.4992	16.8846	-20.3	17.5402	-20.0	20.6681	-26.5	-
USA	($)	1.6828	+0.0077	823 - 833	1.6848	1.6740	1.674	0.6	1.6714	0.9	1.6695	0.3	104.8
Pacific/Middle East/Africa													
Australia	(A$)	2.7640	-0.0072	620 - 660	2.7666	2.7356	2.7673	1.7	2.7517	1.4	2.7416	0.7	76.8
Hong Kong	(HK$)	13.0384	+0.0632	336 - 431	13.0521	12.9963	12.9656	0.8	12.9578	0.6	13.14	-1.3	-
India	(Rs)	71.5737	+0.3586	440 - 034	71.6046	71.2070	71.4793	-4.4	72.1286	-5.1	76.8033	-7.8	-
Indonesia	(Rupiah)	13376.51	+61.24	806 - 057	13576.00	12409.80	13701.18	-34.6	14240.59	-27.7	16275.81	-22.2	-
Israel	(Shk)	7.0030	+0.0109	901 - 159	7.0217	6.93012	-	-	-	-	-	-	-
Japan	(Y)	193.633	-0.01	717 - [illegible]	194.590	193.050	192.806	6.4	190.976	5.9	184.226	5.0	131.7
Malaysia	(M$‡)	6.3946	+0.0292	849 - 403	6.4021	6.3612	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.2157	-0.0047	136 - 193	3.2305	3.2067	3.2183	1.9	3.2086	1.4	3.2121	0.3	88.6
Philippines	(Peso)	65.6617	+0.3014	097 - 537	[illegible]	65.7072	66.1753	-10.6	[illegible]	-9.5	71.6165	-8.2	-
Saudi Arabia	(SR)	6.3119	+0.0285	091 - 146	6.3185	6.2803	6.2876	-0.8	6.2877	-0.9	[illegible]	-1.1	-
Singapore	(S$)	2.7833	+0.0111	807 - 918	2.7918	2.7679	2.7698	4.9	2.7504	4.0	2.713	2.3	-
South Africa	(R)	9.8907	+0.0411	793 - 020	9.9020	9.7699	9.9374	-10.7	10.1044	-10.3	10.9597	-11.2	-
South Korea	(Won)	2035.35	+9.73	906 - 765	2037.69	2025.75	-	-	-	-	-	-	-
Taiwan	(T$)	54.2681	+0.2274	474 - 847	54.3281	53.6848	53.9431	2.1	53.8126	0.9	54.3154	-0.5	-
Thailand	(Bt)	62.2637	+0.4943	769 - 504	62.4904	60.4580	61.7778	-0.2	61.8205	-0.3	63.3159	-2.5	-

† Rates for Dec 23. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	11.7647	-0.0479	619 - 674	11.8060	11.7527	11.7427	2.2	11.7109	1.9	11.5682	1.7	103.1
Belgium	(BFr)	34.4900	-0.17	700 - 100	34.5720	34.4900	34.426	2.2	34.3185	2.0	33.84	1.9	103.3
Denmark	(DKr)	6.3660	-0.0227	640 - 680	6.3848	6.3580	6.359	1.3	6.3497	1.0	6.2985	1.1	106.4
Finland	(FM)	5.0829	-0.0211	807 - 850	5.0977	5.0791	5.0727	2.4	5.0585	2.1	4.9854	1.9	82.0
France	(FFr)	5.6077	-0.0233	067 - 087	5.6260	5.6047	5.5985	2.0	5.5882	2.0	5.4997	1.9	106.4
Germany	(DM)	1.6722	-0.0068	718 - 726	1.6781	1.6708	1.6695	1.9	1.6642	1.9	1.6409	1.9	104.6
Greece	(Dr)	280.625	-1.405	540 - 710	281.890	280.120	281.875	-5.3	284.65	[illegible]	294.525	-5.0	[illegible]
Ireland	(I£)	1.4870	+0.0073	860 - 880	1.4880	1.4842	1.4898	[illegible]	1.4946	-2.0	1.5147	-1.9	-
Italy	(L)	1655.70	-7.15	530 - 610	1661.90	1653.90	1652.37	2.4	1647.17	2.1	1624.45	1.9	75.9
Luxembourg	(LFr)	34.4900	-0.17	700 - 100	34.5720	34.4900	34.426	2.2	34.3185	2.0	[illegible]	1.9	103.3
Netherlands	(Fl)	1.8839	-0.0079	836 - 842	1.8911	1.8826	1.8802	2.4	1.8741	2.1	1.8481	1.9	102.7
Norway	(NKr)	7.6097	-0.0357	087 - 107	7.6552	7.5672	7.6292	-3.1	7.6647	-2.9	7.7297	-1.6	90.8
Portugal	(Es)	171.490	-0.71	440 - 540	172.100	171.390	[illegible]	[illegible]	170.695	1.9	168.36	1.8	99.0
Spain	(Pta)	142.250	-0.69	200 - 300	142.600	142.200	[illegible]	2.0	141.585	1.9	139.56	[illegible]	77.0
Sweden	(SKr)	8.0873	-0.0491	823 - 923	[illegible]	8.0695	8.0763	1.6	8.054	1.6	7.9628	1.5	79.2
Switzerland	(SFr)	1.3631	-0.0095	627 - 634	1.3708	1.3621	1.3586	3.9	1.3505	3.7	1.3178	[illegible]	108.4
UK	(£)	1.6828	+0.0077	823 - 833	1.6848	1.6740	1.6817	0.8	1.679	0.9	1.6799	0.4	100.7
Ecu	-	1.1748	+0.005	745 - 750	1.1708	1.1716	1.1772	-2.4	1.1811	-2.1	1.1983	-2.0	-
SDR†	-	0.71290	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-0.0001	998 - 999	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.2080	-	079 - 080	1.2080	1.2079	-	-	-	-	-	-	-
Canada	(C$)	1.5519	+0.0008	514 - 524	1.5528	1.5470	1.5513	0.5	1.5508	0.3	1.5489	0.2	74.9
Mexico	(New Peso)	9.8745	+0.0425	690 - 800	9.8800	9.8698	10.1295	-31.0	10.537	-26.8	12.4945	-26.6	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	108.7
Pacific/Middle East/Africa													
Australia	(A$)	1.6365	-0.0119	358 - 372	1.6461	1.6327	1.6357	0.6	1.6331	0.6	1.6224	0.9	75.9
Hong Kong	(HK$)	7.7480	+0.002	475 - 485	7.7485	7.7436	7.7482	0.0	7.765	-0.4	7.873	-1.6	-
India	(Rs)	42.5325	+0.0175	275 - 375	42.5830	42.5270	42.7125	-5.1	43.165	-6.0	46.02	-8.2	-
Indonesia	(Rupiah)	7950.00	-	000 - 000	8160.00	7400.00	8190	-36.2	8619	-33.2	9875	-24.2	-
Israel	(Shk)	4.1615	-0.0127	551 - 679	4.1741	4.1551	-	-	-	-	-	-	-
Japan	(Y)	115.065	-0.635	180 - 220	116.180	115.040	114.71	4.9	113.77	4.9	109.86	4.6	132.7
Malaysia	(M$‡)	3.8000	-	300 - 300	3.8000	3.7998	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.9115	-0.0116	102 - 128	1.9284	1.9100	1.9146	-1.9	1.92	-1.6	1.9368	-1.4	-
Philippines	(Peso)	39.1500	-	000 - 000	39.3000	39.0000	39.5745	-13.0	40.103	-9.7	43.1806	-10.3	-
Saudi Arabia	(SR)	3.7508	-0.0002	503 - 513	3.7515	3.7503	3.7553	-1.4	3.7603	-1.0	3.8133	-1.7	-
Singapore	(S$)	1.6575	-0.001	565 - 585	1.6612	1.6510	1.6522	3.8	1.645	3.0	1.624	2.0	-
South Africa	(R)	5.8775	-0.0025	725 - 825	5.8900	5.8300	5.9285	-10.4	6.0409	-11.1	6.535	-11.2	-
South Korea	(Won)	1209.50	+0.25	850 - 050	1210.60	1208.50	-	-	-	-	-	-	-
Taiwan	(T$)	32.2475	-0.0125	460 - 490	32.2490	32.2460	32.2475	0.0	32.3075	-0.7	32.6075	-1.1	-
Thailand	(Bt)	37.0000	+0.125	000 - 000	37.2500	36.9500	37.055	-1.8	37.17	-1.8	38.1	-3.0	-

† SDR rate per $ for Dec 28. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 5.43 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 28: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Dec 29	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3½	3⅝	3⅛	3⅜	3⅛	6.00	2.75	-
France	1⅛	3⅝	3¼	3⅛	3⅛	4.60	-	3.00
Germany	3⅜	3⅜	3⅛	3⅛	3⅛	4.50	2.50	3.00
Ireland	3½	3¾	3¼	3½	3⅛	-	-	3.00
Italy	3⅞	3⅛	3½	3½	3⅛	4.50	3.50	3.11
Netherlands	2⅞	3⅜	3⅛	3⅛	3¼	-	2.75	3.00
Switzerland	¼	1⅛	1⅜	1⅜	1⅜	-	1.00	-
US	5⅛	5¾	5⅛	5⅛	5⅛	-	4.50	-
Japan	⅝	⅛	⅛	¼	¼	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5¾	5¼	5⅛	5⅛	-	-	-
US Dollar CDs	-	4.90	4.77	4.75	4.72	-	-	-
ECU Linked Ds	-	3¾	3⅛	3⅛	3⅞	-	-	-
SDR Linked Ds	-	3⅜	3¼	[illegible]	3⅛	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 29	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3⅛	3⅜ - 3¼	3⅝ - 3½	3⅝ - 3⅛	3½ - 3⅜	3⅛ - 3⅛
Danish Krone	3⅞ - 3¾	5¼ - 4¾	4⅝ - 4⅛	4¼ - 4	4⅛ - 3⅞	4⅛ - 3⅞
German Mark	3⅛ - 3	3⅛ - 3⅛	3¼ - 3⅛	3¼ - 3⅛	3⅛ - 3⅞	3⅞ - 3⅞
Dutch Guilder	2¾ - 2½	3½ - 3¼	3¼ - 3	3½ - 3⅛	3¼ - 3⅛	3⅛ - 3⅛
French Franc	3½ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅞	3½ - 3¼	3½ - 3¼
Portuguese Esc.	3⅜ - 3⅛	3⅜ - 3¼	3⅛ - 2⅞	3⅜ - 3¼	3⅛ - 3	3⅛ - 2⅞
Spanish Peseta	5¾ - 5½	3⅜ - 3⅛	6⅜ - 6½	6¼ - 6⅛	5⅞ - 5⅞	5¾ - 5½
Sterling	6½ - 6	7½ - 6¾	1⅝ - 1½	1⅝ - 1⅝	1⅝ - 1⅝	1¾ - 1½
Swiss Franc	1 - ⅝	3 - 2⅞	5⅛ - 4⅞	5 - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞
Canadian Dollar	5½ - 5	5⅛ - 4⅞	5⅛ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛	5¾ - 5½
US Dollar	5⅛ - 4⅞	7¼ - 7	3½ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛
Italian Lira	3⅛ - 3	3¾ - 3½	¾ - ½	⅝ - ½	½ - ⅜	⅝ - ⅜
Japanese Yen	¾ - ½	⅝ - ⅜	1½ - 1¼	1½ - 1¼	2¼ - 1¾	2¼ - 2¼
Asian $Sing	¾ - ¼	1½ - 1¼				

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.84	96.85	+0.1	96.85	96.84	4,136	45,388
Jun	96.93	96.93	-	96.93	96.92	1,006	18,032

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan	96.790	96.800	+0.030	96.800	96.785	2624	21421
Jun	96.925	96.920	-	96.940	96.910	22609	394186
Sep	96.925	96.925	-	[illegible]	96.910	10462	285450
Dec	96.535	96.570	+0.030	96.590	96.525	4186	203052

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.630	96.850	+0.025	96.860	96.830	4269	847041
Jun	[illegible]	[illegible]	+0.010	96.930	96.910	1963	71883
Sep	96.920	96.925	+0.005	96.930	96.910	[illegible]	43085
Dec	96.540	96.570	+0.040	96.550	96.530	313	41509

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.370	98.440	+0.070	98.450	98.340	2931	64921
Jun	98.270	98.310	+0.040	98.330	98.250	1943	32996
Sep	98.190	98.190	+0.010	98.210	98.170	280	19014
Dec	97.780	97.790	-	97.790	97.780	140	8583

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	99.27	-0.04	-	-	0	n/a
Jun	-	99.33	-0.03	-	-	0	n/a
Sep	-	99.26	-0.02	-	-	0	n/a

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan	-	96.800	+0.030	-	-	0	0
Jun	-	96.920	-	-	-	0	2233
Sep	-	96.920	-	-	-	0	1101
Dec	-	96.570	+0.030	-	-	0	886

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
96875	0.075			0.080		
97000	0.050	0.140	0.185	0.180	0.175	0.215
97125	0.020			0.250		

Est. vol. total, Calls 100 Puts 100. Previous day's open int., Calls 2030 Puts 8570

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 29		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.26	4.848	1.950	4801	5.462	22.06	497.2	412.4	23.45	3.952	1.723	4.500	2.899	334.0	2.468
Denmark	(DKr)	54.18	10	8.809	2.627	1.056	2601	2.959	11.95	269.4	223.5	12.70	2.141	0.933	2.438	1.571	180.9	1.337
France	(FFr)	61.50	11.35	10	2.982	1.199	2953	3.359	13.57	305.8	253.7	14.42	2.431	1.060	2.767	1.783	205.4	1.518
Germany	(DM)	20.63	3.807	3.353	1	0.402	990.1	1.127	4.551	102.6	85.07	4.836	0.815	0.355	0.928	0.598	68.88	0.509
Ireland	(I£)	51.29	9.466	8.339	2.487	1	2462	2.801	11.32	255.0	211.5	12.03	2.027	0.884	2.308	1.487	171.3	1.266
Italy	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.460	10.36	8.592	0.488	0.082	0.036	0.094	0.060	6.957	0.051
Netherlands	(Fl)	18.31	3.379	2.977	0.888	0.357	878.9	1	4.039	91.03	75.51	4.293	0.724	0.315	0.824	0.531	61.14	0.452
Norway	(NKr)	45.32	8.366	7.369	2.197	0.884	2176	2.475	10	225.4	186.9	10.63	1.791	0.781	2.039	1.314	151.4	1.119
Portugal	(Es)	20.11	3.712	3.270	0.975	0.392	965.5	1.098	4.437	100	82.95	4.716	0.795	0.347	0.905	0.583	67.17	0.496
Spain	(Pta)	24.25	4.475	3.942	1.176	0.473	1164	1.324	5.350	120.6	100	5.685	0.958	0.418	1.091	0.703	80.97	0.598
Sweden	(SKr)	42.65	7.872	6.934	2.068	0.832	2047	2.329	9.409	212.0	175.9	10	1.686	0.735	1.919	1.237	142.4	1.053
Switzerland	(SFr)	25.30	4.670	4.114	1.227	0.493	1215	1.382	5.583	125.8	104.4	5.933	1	0.436	1.139	0.734	84.50	0.624
UK	(£)	58.04	10.71	9.437	2.814	1.132	2786	3.170	12.81	288.6	239.4	13.61	2.294	1	2.612	1.683	193.8	1.432
Canada	(C$)	22.22	4.102	3.613	1.078	0.433	1067	1.214	4.903	110.5	91.66	5.211	0.878	0.383	1	0.644	74.22	0.549
USA	($)	34.49	6.366	5.608	1.672	0.673	1656	1.884	7.610	171.5	142.3	8.087	1.363	0.594	1.552	1	115.2	0.851
Japan	(Y)	29.94	5.527	4.868	1.452	0.584	1437	1.636	6.607	148.9	123.6	7.021	1.183	0.516	1.347	0.868	100	0.739
Ecu	-	40.52	7.479	6.588	1.965	0.790	1945	2.213	8.940	201.5	167.1	9.501	1.601	0.698	1.823	1.175	135.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5999	0.5995	+0.0005	0.6000	0.5983	8,612	84,973
Jun	0.6002	0.6015	-0.0002	0.6018	0.6002	1	1,223
Sep	-	-	-	-	-	16	136

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8718	0.8758	+0.0020	0.8773	0.8645	7,110	60,967
Jun	0.8833	0.8836	-0.0001	0.8836	0.8833	4	3,997
Sep	-	0.8900	-	-	-	50	1,347

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7396	0.7374	+0.0009	0.7395	0.7321	4,909	27,087
Jun	0.7400	0.7425	-0.0002	0.7425	0.7380	25	385
Sep	-	0.7440	-0.0047	-	0.7440	20	320

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6746	1.6748	+0.0020	1.6770	1.6690	1,603	42,728
Jun	1.6686	1.6720	+0.0012	1.6720	1.6686	6	1,207
Sep	-	-	-	-	-	260	230

UK INTEREST RATES

LONDON MONEY RATES

Dec 29	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅝ - 5	6¼ - 6⅛	6½ - 6¼	6⅛ - 6⅛	6⅛ - 5⅞	6⅛ - 5⅞
Sterling CDs	-	-	6⅛ - 6⅛	6⅛ - 6⅛	5⅞ - 5⅞	5⅞ - 5¾
Treasury Bills	-	-	5¾ - 6	6 - 5¾	-	-
Bank Bills	-	-	6⅛ - 6	6 - 5⅞	5⅞ - 5¾	-
Local authority deps.	6½ - 6½	6¼ - 6⅛	6⅜ - 6⅛	6⅛ - 6⅛	5⅞ - 5⅞	5¾ - 5¾
Discount Market deps	5½ - 5¼	6⅛ - 6⅛	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from Dec 10, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc.
Ave. tender rate of discount on Dec 24, 5.5913pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 30, 1998. Agreed rate for period Dec 26, 1998 to Jan 25, 1999, Scheme II & 24pc. Reference rate for period Oct 31, 1998 to Nov 30, 1998, Scheme IV & V 6.98pc. Finance House Base Rate 7½pc for Dec 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.440	94.450	-	94.470	94.430	4800	183325
Jun	94.820	94.870	+0.030	94.870	94.790	5173	170215
Sep	94.920	94.930	-	94.940	94.900	4113	147120
Dec	94.450	94.470	-0.010	94.480	94.450	806	129260
Mar	94.800	94.810	-	94.820	94.800	1108	114417

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
94250	0.305	0.700	0.840	0.105	[illegible]	0.160
94375	0.220			0.145		
94500	0.155	0.515	0.660	0.205	0.145	[illegible]
94625	0.110			0.285		
94750	0.075	0.355	0.505	0.375	0.235	0.325
94875	0.050			0.475		

Est. vol. total, Calls 2280 Puts 2217. Previous day's open int., Calls 408705 Puts 382085

EMS EUROPEAN CURRENCY UNIT RATES

Dec 29	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	328.948	-0.453	-7.86	7.55	53
Denmark	7.54257	7.45997	+0.00421	-1.10	0.20	7
France	6.63186	6.57030	-0.00083	-0.93	0.03	8
Spain	168.220	166.679	-0.049	-0.92	0.02	6
Austria	13.9119	13.7839	-0.0023	-0.92	0.02	7
Ireland	0.796244	0.788947	-0.000113	-0.92	0.02	6
Germany	1.97738	1.95918	-0.00038	-0.92	0.02	8
Finland	6.01125	5.95593	-0.00117	-0.92	0.02	6
Netherlands	2.22799	2.20745	-0.00056	-0.92	0.02	7
Italy	1957.61	1939.84	-0.83	-0.91	0.01	7
Belgium	40.7844	40.4121	-0.0085	-0.91	0.01	7
Portugal	202.692	200.887	-0.053	-0.90	0.00	6
NON ERM MEMBERS						
UK	0.853644	0.697180	+0.000942	6.88	-7.09	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
1.670	1.42	2.25	2.57	1.13	2.09	2.54
1.680	0.97	1.83	2.21	1.62	2.54	3.04
1.690	0.58	1.35	1.81	2.27	3.14	3.63

Previous day's vol., Calls - Puts 40. Prev. day's open int., Calls 548 Puts 2,017

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
0.590	0.94	1.28	1.54	0.21	0.63	0.72
0.595	0.61	0.98	[illegible]	[illegible]	0.75	0.93
0.600	0.40	0.73	0.99	0.71	0.99	1.15

Previous day's vol. Calls - Puts -. Prev. day's open int., Calls 735 Puts 3,882

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.95	95.00	+0.02	94.98	94.95	17,624	500,303
Jun	[illegible]	95.03	-	[illegible]	94.97	[illegible]	405,057
Sep	95.02	95.04	+0.01	95.03	94.97	[illegible]	361,488

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.67	95.71	+0.05	95.66	95.61	830	2,080
Jun	95.70	95.76	+0.01	95.70	95.68	14	76

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
96750	0.120	0.130	0.140	0.240	0.020	0.030	0.040	0.070
96875	0.030	0.045	0.065		0.055	0.070	0.080	
97000	0.010	0.020	0.040	0.120	0.160	0.170	0.190	0.200
97125	0.005	0.010	0.020		0.280	0.285	0.295	

Est. vol. total, Calls 5845 Puts 1784. Previous day's open int., Calls 678253 Puts 322241

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
98500	0.140	0.170	0.200	0.200	0.360	0.510
98625	0.070			0.255		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3225 Puts 2082

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Exeter Trust Limited	7.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.25	Financial & Gen Bank	[illegible]	Smith & Williamson	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	Sun Bank	6.25
Banco Bilbao Vizcaya	6.25	Habib Bank AG Zurich	6.25	TSB	6.25
Bank of Cyprus	6.25	Heritable & Gen Inv Bk	6.25	United Bank of Kuwait	6.25
Bank of Ireland	6.25	C. Hoare & Co	6.25	Unity Trust Bank Plc	6.25
Bank of India	6.75	●SG Hambros Bank & Trust	6.25	Whiteaway Laidlaw	6.25
Bank of Scotland	6.25	Hongkong & Shanghai	6.25	Yorkshire Bank	6.25
Barclays Bank	6.25	Investec Bank (UK) Ltd	6.25		
Brit Bk of Mid East	6.25	Julian Hodge Bank	6.25		
●Brown Shipley & Co Ltd	6.25	●Leopold Joseph & Sons	6.25		
Citibank NA	6.25	Lloyds Bank	6.25		
Clydesdale Bank	6.25	Midland Bank	6.25		
The Co-operative Bank	6.25	NatWestminster	6.25		
Coutts & Co	6.25	●Rea Brothers	6.75		
Cyprus Popular Bank	6.75	Royal Bk of Scotland	[illegible]		
Duncan Lawrie	6.25	Scottish Widows Bank	6.75		

● Members of London Investment Banking Association

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Newton Fund Mgrs - Contd.

[illegible]

Perpetual Fund Management (Jersey) Ltd

PO Box 459, Seale Street, St Helier, Jersey 01534 607660

[illegible]

JERSEY
(REGULATED)(**)

[illegible]

LUXEMBOURG
(FSA RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monnet, L-2180 Luxembourg 352 42494 8335

[illegible]

Fleming Group - Contd.

[illegible]

Mercury Asset Management

[illegible]

Templeton Global Strategy Funds - Contd.

[illegible]

LUXEMBOURG
(REGULATED)(**)

ACM Offshore Funds

[illegible]

Citimarkets SA

[illegible]

Lombard Odier Selection

[illegible]

[illegible]

OFFSHORE INSURANCES

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Equitable Life (International)

PanEuroLife societe anonyme

Ardent Investment Management Limited

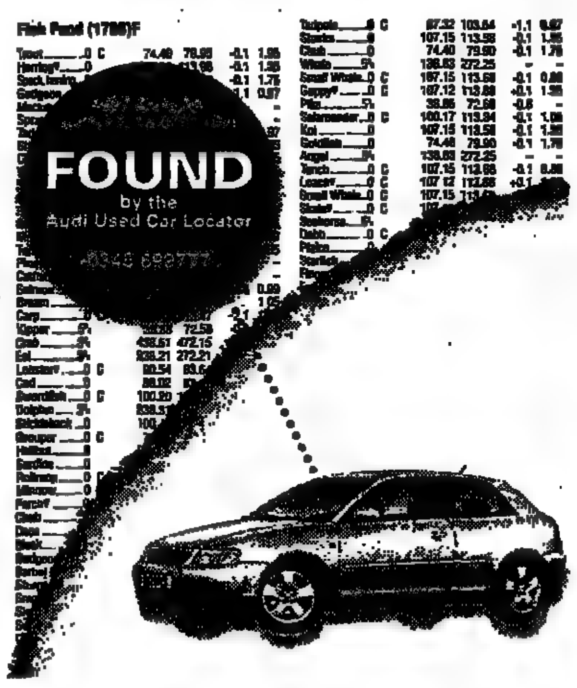
Dresdner Bank Investment Group

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd

Mortimer & Scott

Scudder, Stevens & Clark Inc



OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	q‡	[illegible]xd	+2½	646	385	400	4.6	14.8
Bulmer (HP)		238	—	412½	297½	–	5.6	14.9
Burn Stewart		18½	—	42½	7	18	–	–
Diageo	‡	785	+3½	*795	449½	2,023	2.8	21.3
Glenmorangie A	†	687½xd	—	925	685	–	2.8	18.7
B	†	[illegible]	—	900	610	–	1.1	44.6
Highland		256xd	+2	325	225	6	4.4	12.2
5¾pc Cv Sb Bd		97	—	108½	88	–	6.1	–
Kirin Y		745	+12½	745	418½	–	0.8	70.3
Matthew Clark	Φ	242	—	244	115	[illegible]	6.7	8.2
[illegible]		30	-1	59½	18½	–	–	Φ
Seagram C$		£27[illegible]	[illegible]	£28[illegible]	£14[illegible]	–	1.2	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Exel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

FT Free Annual Reports Club

FT Cityline

The FT web site

LONDON STOCK EXCHANGE

TRADING VOLUME

■ Major Stocks yesterday

Based on trading volume for the FTSE 100 constituent companies and reserves yesterday until 4.30pm.
† Indicates a FTSE 100 index reserve. All stocks are rounded. Source: Ibbotson, part of FT Information.

BP and Quadrant flesh out skeleton trade

MARKET REPORT

By Peter John

UK blue chips shrugged off their pre-Christmas tremors and continued the recent run that has surprised so many strategists.

The FTSE 100 index ran ahead more than 100 points in the first couple of hours and, although it came under pressure later in the day after the Dow Jones Industrial Average opened weaker, it closed up 74.3 at 5,941.5.

The smaller indices, which had held up on Christmas eve, saw lesser gains. The FTSE 250 rose 30.7 to 4843.5 and the SmallCap 9.3 to 2,061.7.

However, the real story was in the turnover. Volume by the 6pm cut-off reached only 286m shares – and more than 13 per cent of that was in two stocks: BP and Quadrant Healthcare.

BP, which is poised to merge with Amoco of the US, so prompting a big asset shift as fund managers adjust their weightings in what will be the UK's biggest company, saw 23m traded; Quadrant Healthcare saw 16m change hands. Ex-shareholders bailed out from Andaris, a company Quadrant bought in October.

By contrast, turnover on a normal working day – even on Mondays and Fridays when volumes are traditionally light – would be light at 800m shares.

"The trains were empty and there was a skeleton staff in the offices," said the head of sales trading at one broker.

"Morning meetings were more or less cancelled. There was trading but Sets [the stock exchange's electronic trading system] was pretty ugly. Prices were wider and a little less deep than you would normally get."

Other dealers said there were basket trades carried out but they reflected nothing more than arbitrage between the Footsie and the relevant futures contract and the day's activity was futures-led.

Business was broadly on hold until the launch of the euro on January 1. Some strategists believe there could be a flood of buying from European institutions which have been waiting on the sidelines to see how the launch goes and which have cash to invest.

Others argue that the "January effect" – a sharp rise in equities as fund managers make their new year investment decisions – has already happened.

A sceptical Richard Kersley at CSFB maintains an end-of-1999 forecast of 6,200, just 260 points above last night's close.

He says: "While the prospect of falling interest rates and strong liquidity inflows suggest that there is scope for some additional re-rating of the UK market, this increasingly feels like the last leg of the p/e expansion phase of the bull market."

Thomson headed for sunshine

COMPANIES REPORT

By Joel Kibazo

Fresh hopes for consolidation in the package holiday sector sent Thomson Travel Group sharply ahead.

The shares rose 11¼ or nearly 8 per cent to 160½p, making it the best performer in the FTSE 250.

The merger talk came after last week's news that German group Preussag had agreed to buy control of Thomas Cook, the UK travel agency and financial services firm.

Preussag said it had agreed with Thomas Cook's majority shareholder, Westdeutsche Landesbank, the German public sector bank, to buy 24.9 per cent of the UK group now and another 25.2 per cent from WestLB by September 30 next year.

Dealers said sentiment in the stock had been enhanced by recent news of a favourable outcome to an investigation into Thomson's flotation last May.

The Securities and Futures Authority said only 41 complaints were outstanding of the 960 inquiries it had received after the UK package tour operator went on the market.

The stock came to the market at 170p a share in May and hit a peak of 199p in the same month.

Many summer holidays are usually booked in the period just after Christmas and analysts are said to be cautiously optimistic about prospects for the sector although there was little activity among other tour operators yesterday.

Airtours edged up ½ to 384½p while First Choice hardened a penny to 122½p.

Turnover of 23m made oil giant British Petroleum the busiest stock in the FTSE 100. With completion of the group's merger with US oil group Amoco believed to only days away, the stock has been at the top of investors' shopping lists with few fund managers unwilling to take the chance of not being exposed to the UK's biggest company.

Analysts are still hoping the deal will clear its last hurdle, approval from the Federal Trade Commission, tomorrow. Yesterday the shares bucked the strong market trend, closing 8 off at 908½p as profit-taking and some adjustment of portfolios took place.

There was a slightly negative slant from news that the company was considering shutting its 30,000 barrel-a-day Ula oilfield in the North Sea because of the low oil price.

However, there was also support from the US as broker Edward Jones initiated coverage of the stock with a "buy" recommendation.

In contrast, Shell Transport put on 7¾ to 373p after trade of 5.9m. Enterprise Oil was also wanted, the shares adding 5¼ to 293p.

There was little interest in British Borneo, which left the shares 4 lighter at 100p, the worst performer in the FTSE 250.

The prospect of lower interest rates and hopes of further sector consolidation next year kept banking stocks in demand.

Barclays, often spoken of as a bid target, rose 34 to £13.38 while Halifax hardened 12¼ to 862½p. Bank of Scotland rose 14 to 718p and National Westminster gained 23 to £11.94.

Tightly held merchant banking group Schroders jumped 64 to £11.67 to make it the best performing stock in the FTSE 100.

Lloyds TSB, which was tipped by NatWest Stockbrokers, improved 13 to 878p.

Pharmaceuticals stocks were well bid with the recent announcement that Zeneca is to merge with Astra of Sweden, reviving old hopes that SmithKline Beecham and Glaxo Wellcome might link up.

Glaxo gained 47 to £20.78, SmithKline 23¾ to 842p and Zeneca 29 to £26.20.

FT 30 INDEX

	Dec 29	Dec 24	Dec 23	Dec 22	Dec 21	Yr ago	*High	*Low
FT 30	3574.9	3533.6	3555.1	3518.4	3536.4	[illegible]	4004.9	2790.8
Ord. div. yield	2.90	2.93	2.92	2.94	2.93	3.42	4.22	2.72
P/E ratio net	23.12	22.87	22.98	22.78	22.88	21.23	25.41	16.80
P/E ratio nil	23.03	22.77	22.88	22.69	22.77	20.94	25.19	16.71

FT 30 since compilation: high 4004.9 [illegible]; low 49.4 [illegible]. Base Date: 1/7/35.

FT 30 hourly changes

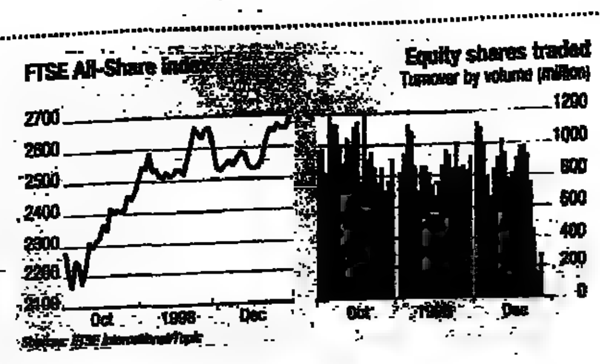
9	10	11	12	13	14	15	16	High	Low
3533.6	3560.1	3562.6	3578.0	3578.4	3573.9	3560.3	3560.1	3584.1	3533.6

STOCK MARKET TRADING DATA

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	816	Total Highs	57	Total contracts	28,018
Total Falls	377	Total Lows	28	Calls	14,643
Same	1,614			Puts	13,375

Dec 29 *Data based on Equity shares listed on the London Share Service.



Indices and ratios

FTSE 100	5941.5	+74.3	FT 30	3574.9	+41.3
FTSE 250	4843.5	+30.7	FTSE Non-Fins p/e	22.57	22.34
FTSE 350	2794.8	+32.3	FTSE 100 Fut Dec	5969.0	+89.0
FTSE All-Share	2693.98	+30.24	10 yr Gilt yield	4.53	4.58
FTSE All-Share yield	2.90	2.93	Long gilt/equity yld ratio	1.58	1.54

Best performing sectors

1. Engineering: Vehicles +3.7
2. Insurance +2.4
3. Health care +2.4
4. Pharmaceuticals +2.3
5. Other Financial +1.8

Worst performing sectors

1. Gas Distribution –0.5
2. Diversified Industrials –0.3
3. Distributors –0.1
4. Chemicals +0.0
5. Utilities +0.0

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5920.0	5989.0	+89.0	6010.0	5915.0	10776	[illegible]
Jun	-	6029.0	+89.0	-	-	0	13538

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

■ FTSE 100 INDEX OPTION (LIFFE) (*5941) £10 per full index point — Dec 29

Calls 1,618 Puts 334

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

Calls 1,781 Puts 10,660 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

FTSE GOLD MINES INDEX

FTSE Actuaries Share Indices — The UK Series

■ FTSE Actuaries Industry Sectors

■ Hourly movements

EURO FREIGHT CAR FINANCE S.A.

Euro 90,000,000 Series 1998-1 Class A1 Secured Floating Rate Notes due 2016
Euro 130,000,000 Series 1998-1 Class A2 Secured Floating Rate Notes due 2016
Euro 35,000,000 Series 1998-1 Class B Secured Floating Rate Notes due 2016

Balance as of December 31, 1998

	Class A1	Class A2	Class B
Note Principal Payment	5,550.61521111	nil	nil
Principal Amount Outstanding	90,678.2198	100,000	100,000
Redemption Premium	n/a	nil	nil
Aggregate Principal Amount Outstanding	81,610,397.82	130,000,000	35,000,000

BANQUE GÉNÉRALE DU LUXEMBOURG
Agent Bank

Notice to the holders of

Gallop Ex. Limited

U.S. $107,000,000

2¼ per cent. Secured Notes due 1999

Notice is hereby given to holders of the above Notes that Bankers Trustee Company Limited, as Trustee for the Noteholders has entered into a Supplemental Trust Deed dated 10th December, 1998 which removes Nikko Europe Plc ("Nikko Europe") as Swap Counterparty and replaces it with The Nikko Securities Co. Ltd. ("Nikko Securities") following the novation of the Swap Agreements dated 21st September, 1995 between Gallop Ex. Ltd. and Nikko Europe in favour of Nikko Securities on 10th December, 1998. Nikko Europe is currently transferring its trading book, assets and is currently in the process of reducing its exposure in both the debt and underlying derivative markets. The Principal Finance Group business will continue to operate from Nikko Europe.

30th December, 1998 — Bankers Trustee Company Limited

NOTICE OF REDEMPTION
To the holders of

CUSIP 717123AA1
ISIN XS0041863621

Pharmaceutical Marketing Services Inc.

6¼% Convertible Subordinated Debentures due 2003

Notice is hereby given that on February 1, 1999 (the "Redemption Date") Pharmaceutical Marketing Services Inc. will redeem all the outstanding 6¼% Convertible Subordinated Debentures due 2003 at 100% of principal amount (the "Redemption Price"). On the Redemption Date such principal will become due and payable and interest will cease to accrue as of such date. Interest payments due on the Redemption Date will be paid to holders of record as of the close of business on January 15, 1999.

The right to convert the Debentures into shares of Common Stock at the conversion price of $20.00 per share (the "Conversion Price") will terminate at the close of business on January 18, 1999.

Registered Securities should be presented for conversion or surrendered for payment at the following address: Harris Trust Company of New York, Wall Street Plaza, 88 Pine Street, 19th Floor, New York, New York 10005, Attn: Corporate Trust Department.

Bearer Securities, with all coupons appertaining thereto, should be presented for conversion or surrendered for payment to the following address: The Bank of New York, 30 Cannon Street, London, EC4M 6XH, England, Attn: Deborah Cumner-Price or Banque Internationale à Luxembourg, 69 Route d'Esch, L-2953, Luxembourg.

Pharmaceutical Marketing Services Inc.

Dated: December 30, 1998

LEGAL NOTICES

No. 6802 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
PRIMARY HEALTH PROPERTIES PLC
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated Wednesday 16th December 1998 confirming the reduction of share premium account of the above named Company from £7,370,000 to £5,810,000 was registered by the Registrar of Companies on 22nd December 1998.

DATED this 30th day of December 1998

Nabarro Nathanson
The Anchorage
34 Bridge Street
Reading RG1 2LU
Solicitors to the Company

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 29 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Dec 29 / Frs.)

[illegible]

CZECH REP (Dec 29 / Koruna)

[illegible]

DENMARK (Dec 29 / Kr)

[illegible]

FINLAND (Dec 29 / Mka)

[illegible]

FRANCE (Dec 29 / Frs.)

[illegible]

GERMANY (Dec 29 / Dm.)

[illegible]

GREECE (Dec 29 / Drachma)

[illegible]

IRELAND (Dec 24 / Punt)

[illegible]

ITALY (Dec 29 / Lira)

[illegible]

NETHERLANDS (Dec 29 / Fls.)

[illegible]

NORWAY (Dec 29 / Kroner)

[illegible]

POLAND (Dec 29 / Zloty)

[illegible]

PORTUGAL (Dec 29 / Escudo)

[illegible]

SPAIN (Dec 29 / Pta.)

[illegible]

SWEDEN (Dec 29 / Kronor)

[illegible]

SWITZERLAND (Dec 29 / Frs.)

[illegible]

TURKEY (Dec 29 / TK Lira)

[illegible]

PACIFIC

JAPAN (Dec 29 / Yen)

[illegible]

AUSTRALIA (Dec 29 / Aus$)

[illegible]

HONG KONG (Dec 29 / H.K.$)

[illegible]

INDONESIA (Dec 29 / Rupiah)

[illegible]

MALAYSIA (Dec 29 / MYR)

[illegible]

NEW ZEALAND (Dec 29 / NZ $)

[illegible]

SINGAPORE (Dec 29 / S$)

[illegible]

SOUTH KOREA (Dec 29 / Won)

[illegible]

TAIWAN (Dec 29 / TW $)

[illegible]

THAILAND (Dec 29 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Dec 29 / Rand)

[illegible]

AMERICAS

CANADA

TORONTO (Dec 29 / Can $)
4 pm close

[illegible]

MONTREAL (Dec 29 / Can $)
1 pm

[illegible]

MEXICO (Dec 29 / Peso)
12.30 pm

[illegible]

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY DECEMBER 28 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY DECEMBER 25 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	193.07	-0.6	170.89	141.23	168.53	211.68	0.0	3.46	194.14	171.95	142.48	169.58	211.68	218.96	163.88	196.70
Austria (21)	179.77	0.7	159.11	131.50	158.92	156.80	0.7	2.22	178.48	158.08	130.99	155.92	155.78	253.73	166.45	186.88
Belgium (22)	415.33	0.7	367.81	303.80	362.53	355.00	0.8	1.90	412.38	365.24	302.65	360.24	352.84	415.33	250.39	251.69
Brazil (32)	133.40	-2.6	118.07	97.58	116.44	296.62	-2.6	3.05	136.97	121.31	100.53	119.65	304.44	289.34	102.88	227.81
Canada (117)	197.66	-0.1	174.95	144.58	172.53	221.88	-0.0	1.76	197.81	175.20	145.18	172.80	221.88	248.78	159.94	206.50
Denmark (34)	501.96	0.7	444.90	367.18	438.17	436.18	0.6	1.61	498.54	441.58	365.89	435.51	433.50	537.33	420.12	442.37
Finland (28)	585.93	2.6	518.61	428.60	511.45	627.63	2.5	1.45	571.27	505.97	419.27	499.04	612.46	585.98	267.50	274.45
France (75)	319.43	0.0	282.73	233.66	278.83	282.15	0.1	2.21	319.31	282.81	234.35	278.94	281.95	345.18	225.24	233.30
Germany (55)	280.70	1.9	248.45	205.33	245.02	245.02	1.8	1.32	275.56	244.08	202.24	240.72	240.72	325.61	218.59	226.89
Greece (36)	338.12	0.4	299.27	247.33	295.14	683.58	-0.6	1.24	336.69	298.20	247.10	294.12	679.61	338.12	211.47	–
Hong Kong, China (67)	311.12	-1.1	275.37	227.58	271.57	309.40	-1.1	4.17	314.57	278.62	230.87	274.80	312.84	382.55	198.84	342.47
Indonesia (26)	50.94	-1.5	45.08	37.26	44.46	248.42	-0.2	1.23	51.70	45.79	37.95	45.17	249.00	67.21	19.04	67.21
Ireland (16)	541.08	0.1	478.91	395.79	472.31	515.24	0.0	1.89	540.52	478.74	396.70	472.18	515.24	560.44	389.13	388.13
Italy (53)	177.91	2.9	157.47	130.14	155.30	220.94	2.9	1.26	172.85	153.08	128.88	150.98	214.78	184.49	115.40	115.40
Japan (445)	97.28	0.9	86.08	71.14	84.90	71.14	0.5	1.05	96.42	85.40	70.76	84.23	70.76	109.73	76.83	92.46
Mexico (29)	1138.45	-0.9	1007.55	832.76	983.74	12238.14	-1.4	2.10	1148.54	1017.25	842.92	1003.32	12406.80	1603.07	787.15	1721.35
Netherlands (26)	527.77	1.2	467.13	386.05	460.69	455.70	1.1	2.08	521.31	461.72	382.60	455.40	450.57	582.38	391.03	400.15
New Zealand (18)	60.44	-0.6	53.49	44.21	52.75	61.72	0.0	4.73	60.79	53.84	44.61	53.10	61.72	77.84	45.68	73.29
Norway (37)	221.03	2.4	195.64	161.58	192.94	229.37	2.8	2.52	215.91	191.23	158.48	188.61	223.44	357.71	181.86	311.81
Philippines (22)	87.57	9.1	77.51	64.06	76.44	170.86	0.5	0.86	87.48	77.48	64.20	76.42	170.01	106.98	42.48	78.39
Portugal (18)	255.45	1.3	226.11	186.86	222.98	301.08	1.3	1.09	252.17	223.34	185.07	220.28	297.35	289.39	184.13	–
Singapore (41)	214.28	-1.0	189.68	156.74	187.04	163.77	-0.8	1.74	218.54	191.79	158.82	189.16	165.15	246.74	102.45	228.04
South Africa (38)	181.30	2.5	160.47	132.62	158.25	233.00	1.9	4.06	178.79	158.58	129.75	154.44	228.57	346.20	151.55	263.08
Spain (30)	399.15	0.9	353.29	291.97	348.42	432.23	0.8	1.86	395.70	350.47	290.41	345.67	428.67	417.73	288.03	268.03
Sweden (46)	505.55	-0.1	447.46	369.80	441.29	606.94	1.0	1.92	508.04	448.20	371.38	442.08	602.67	638.19	379.18	458.47
Switzerland (30)	420.28	1.3	371.99	307.43	365.86	357.64	1.3	1.19	414.74	367.33	304.38	362.30	352.90	438.48	307.73	334.24
Thailand (35)	24.04	1.4	21.28	17.59	20.99	34.41	2.9	2.75	23.70	20.99	17.40	20.71	33.44	33.84	8.15	18.54
United Kingdom (207)	379.59	0.1	335.98	277.86	331.34	335.98	0.0	2.92	379.34	335.98	276.40	331.38	335.98	401.84	307.96	329.01
USA (619)	503.92	0.1	446.02	368.61	430.87	503.92	0.1	1.20	503.42	445.87	369.45	430.77	503.42	503.85	370.74	382.42
Americas (797)	447.24	0.1	395.86	327.15	380.39	379.41	0.1	1.32	446.90	395.82	327.98	380.40	379.12	447.26	343.40	347.50
Europe (734)	360.45	0.8	319.03	253.66	314.63	326.18	0.6	2.06	357.37	316.52	262.28	312.18	323.42	386.24	279.29	284.73
Eurobloc (344)	105.17	1.3	93.09	76.93	91.80	99.38	1.3	1.73	103.79	91.93	76.18	90.67	98.13	113.28	81.53	–
Nordic (145)	491.79	0.8	435.28	359.73	429.28	498.55	1.4	1.78	487.66	431.92	357.90	426.00	491.57	555.97	380.04	402.95
Pacific Basin (730)	105.12	0.5	93.04	76.89	91.76	80.02	0.3	1.58	104.58	92.62	76.75	91.35	79.76	119.48	82.88	102.80
Euro-Pacific (1464)	211.30	0.8	187.02	154.56	184.44	172.42	0.7	1.93	209.70	185.73	153.90	183.18	171.21	220.19	166.00	178.67
North America (739)	483.13	0.1	427.62	353.40	421.72	434.49	0.1	1.31	482.67	427.50	354.24	421.65	434.02	483.13	367.38	371.24
Europe Ex. UK (527)	338.36	1.2	299.48	247.50	295.35	311.31	1.3	1.88	334.22	296.01	245.29	291.96	307.42	366.32	250.03	254.73
Europe Ex. Eurobloc (390)	97.51	0.4	86.30	71.32	85.11	95.82	0.4	2.42	97.16	86.05	71.31	84.87	95.43	108.98	77.40	–
Europe Ex. UK Ex. Eurobloc (183)	99.18	0.9	87.79	72.55	86.57	95.04	1.2	1.42	98.25	87.02	72.11	85.83	93.90	109.21	75.16	–
Pacific Ex. Japan (285)	180.27	-0.8	159.56	131.86	157.35	187.11	-0.5	3.58	181.72	160.95	133.37	158.75	186.02	216.04	128.26	194.80
World Ex. Eurobloc (1855)	104.00	0.2	103.45	90.46	98.14	102.35	0.2	1.57	103.79	103.31	90.57	98.02	102.17	104.07	83.08	–
World Ex. US (1680)	210.27	0.7	186.71	153.81	183.55	177.05	0.7	1.94	208.79	184.92	153.23	182.39	175.91	221.91	165.85	182.45
World Ex. UK (2092)	297.79	0.4	263.67	217.82	259.93	265.11	0.4	1.45	298.54	262.64	217.63	259.04	264.06	288.02	234.66	239.10
World Ex. Japan (1854)	408.08	0.3	361.75	298.46	356.18	356.37	0.3	1.85	406.66	360.19	298.47	355.28	395.04	411.23	318.78	323.84
The World Index (2299)	304.83	0.4	269.81	222.98	268.08	271.60	0.4	1.80	303.86	269.05	222.86	265.27	270.73	308.50	242.08	248.71

Emerging markets: IFC Investable indices

Dollar terms

[illegible]

4 pm close December 29

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 28	Dec 24	Dec 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9226.75	9217.99	9202.03	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	108.59	108.55	106.72	107.17 (8/12)	104.42 (11/5)	107.17 (8/12/98)	54.99 (1/10/81)
Transport	3040.83	3044.08	3054.58	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	312.27	314.54	315.05	328.51 (8/10)	262.86 (9/1)	328.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9330.56 (9288.47) Low 9133.54 (9148.42) (Theoretical) Day's high 9282.79 (9243.54) Low 9188.41 (9178.80) (Actual)

Standard and Poors	Dec 28	Dec 24	Dec 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1225.49	1226.27	1228.54	1228.54 (23/12)	927.69 (9/1)	1228.54 (23/12/98)	4.40 (1/6/32)
Industrials‡	1472.93	1471.51	1474.98	1474.98 (23/12)	1077.40 (9/1)	1474.98 (23/12/98)	3.62 (30/6/32)
Financial‡	130.67	131.71	131.57	147.98 (14/7)	95.80 (8/10)	147.98 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	588.01	588.07	588.95	609.75 (17/7)	477.20 (8/10)	609.75 (17/7/98)	4.84 (25/4/42)
Amex Comp	695.59	696.49	694.78	759.67 (22/4)	563.75 (8/10)	759.67 (22/4/98)	524.20 (18/7/96)
NASDAQ Cmp	2180.30	2183.05	2172.54	2180.30 (28/12)	1419.12 (8/10)	2180.30 (28/12/98)	54.87 (3/10/74)
Russell 2000	408.28	405.58	404.79	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.35 (7/12/82)

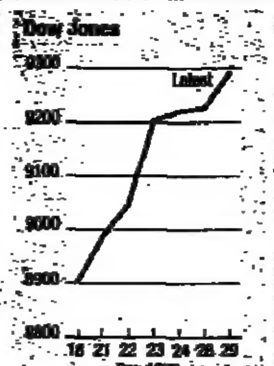
RATIOS

	Dec 24	Dec 18	Dec 11	Year ago
Dow Jones Ind. Div. Yield	1.65	1.71	1.72	1.79
	Dec 16	Dec 9	Dec 2	Year ago
S & P Ind. Div. yield	1.23	1.21	1.22	1.49
S & P Ind. P/E ratio	35.88	36.28	35.71	25.90

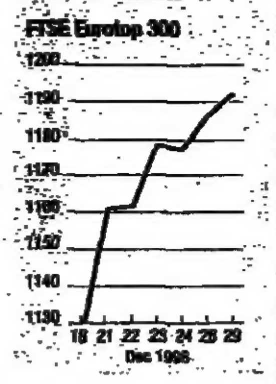
US DATA

[illegible]

Dow Jones



FTSE Eurotop 300



JAPAN

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

UK

[illegible]

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1237.50	1236.30	+2.80	1237.20	1236.30	30,887	369,332
Jun	1246.70	1246.70	+1.80	1246.70	1246.70	742	8,008

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	13750.0	13960.0	+160.0	13870.0	13640.0	14,795	131,934
Jun	13600.0	13760.0	+160.0	13760.0	13580.0	21	32,980

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	3875.0	3888.0	+18.0	3912.0	3860.0	84,277	[illegible]
Jan	3881.5	3898.0	+18.0	3919.0	3888.5	52,741	[illegible]

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	5057.0	5068.0	-29.00	5108.5	5050.0	7,681	[illegible]
Jun	5120.0	5009.0	-10.00	5120.0	5109.0	253	[illegible]

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
[illegible]							

EUREX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
[illegible]							

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

AMEX

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Wall Street edges higher in thin trade

AMERICAS

Blue chips reversed a sluggish start to lead Wall Street higher in early afternoon trading, *writes John Labate in New York.*

By then the Dow Jones Industrial Average had gained 69.77 or 0.8 per cent to 9,296.52. The Standard & Poor's 500 index was slightly stronger, adding 11.21 or 0.9 per cent at 1,236.70.

Trading volume was thin, as expected during the week leading up to the new year. Advancing shares pulled ahead of decliners by four to three on the NYSE.

Mild selling in high-tech shares put a damper on the Nasdaq composite, which trailed the broader market with a gain of less than 1 point at 2,181.01. Shares of Dell Computer, one of this year's best performers, came off $⅛ to $74⅛.

Monday's euphoria for major internet shares gave way to profit-taking throughout much of the morning, with Amazon.com down $14⅞ to $337¼ and Yahoo! falling $7¾ to $267¾.

But online brokerage stocks swam against the tide, with Ameritrade Holdings up $2⅛ to $35⅞ and E*Trade climbing $3⅞ to $60⅞.

In the energy sector, Conoco fell $¼ to $20⅞ after the company said it would take a $50m charge in the fourth quarter. Halliburton, the oil services company, lost $2⅞ or more than 8 per cent to $30 after it issued news of its own fourth-quarter charge of $35m late on Monday.

In the Dow, AT&T was $2¼ higher at $76¾ after the company released new information about its job-cutting programme.

Bookseller Barnes & Noble gained more than 10 per cent at $44¾ after Morgan Stanley Dean Witter raised its target price for the stock to $45.

But Ziff-Davis was down 5 per cent to $17⅛ after Morgan Stanley cut its rating to "neutral".

TORONTO moved lower in thin volumes as investors made a slow return to the market after the four-day Christmas break.

At the noon count, the 300 composite index was off 23.70 at 6,441.70.

Banks set the early tone with Royal Bank of Canada off 45 cents at C$76.45 and Bank of Montreal dipping 10 cents to C$82.40. Golds, too, were dull. Barrick shed 30 cents to C$29.40.

Among telecoms, Northern Telecom gave up C$1.25 at C$77.95 and BCE 90 cents at C$57.10. In the metals-based sectors, Alcan Aluminium fell 40 cents to C$41.55.

São Paulo falls sharply

SAO PAULO dropped sharply in early trading amid investor nervousness about the recent rapid movement of dollars out of Brazil.

The Bovespa index was 206 or 3.0 per cent lower at 6,693.

Monday's session on the foreign exchange markets yielded a net dollar outflow of $1bn, meaning that a net $4.51bn has left the country this month.

Currency traders say that many companies and banks are using dollars to meet overseas year-end bond and loan obligations.

BUENOS AIRES weakened as concerns about the health of Brazil continued to worry local investors. The Merval index was 5.92 or 1.4 per cent lower at 428.08 at midsession. Declining issues led advancers 17 to nine.

Paris advances in front of futures expiry

EUROPE

Helped by technical support ahead of tomorrow's futures expiry, PARIS ended within a whisker of its best of the session, gaining 18.0 at 3,891.10.

Thomson-CSF climbed to FFr230 after the group confirmed talks with GEC aimed at a CSF link with the UK group's Marconi defence operations. The shares closed up FFr5.20 at FFr226 in FFr35.5m turnover that stood out on what was generally a seasonally thin session.

L'Oréal gained FFr58 at FFr3,966 and Renault was also firm, rising FFr9.30 or 4 per cent to FFr245. Among motor components, Michelin and Valeo were weak, dipping FFr8 to FFr222 and FFr15 to FFr431 respectively.

The FTSE Eurotop 300 index rose 5.05 or 0.43 per cent to 1,191.62. See Euro Prices page.

Spectacles chain Grandvision, which has fallen steeply this year, bounced on the back of bid talk. The shares added FFr11.20 or 8.7 per cent at FFr140.20 after a local press report suggested that retail giant Pinault-Printemps was keen to take a stake.

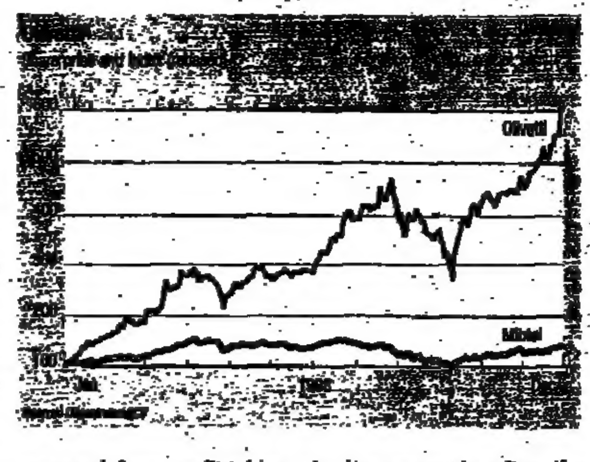
FRANKFURT continued to rally, adding 16.05 at 5,056.20 on the Xetra Dax index. Telecoms recovered after marked weakness on Monday when a wave of competition worries sparked selling. Insurers were also in favour.

Deutsche Telekom gained 95 pfg to DM55.97 and Mannesmann added DM5.30 at DM197.80. In insurers, Munich Re rose DM14.80 to DM812 and Allianz gained DM16.50 to DM531.50.

Share buy-back news sent BHF-Bank down 25 pfg to DM67, with the bank confirming it had acquired 3.4 per cent of its capital over the past two months.

MILAN edged lower on a quiet day dominated by domestic fund activity. The Mibtel index closed 72 or 0.3 per cent down at 23,648.

Olivetti, the computer and telecommunications group, recovered from profit-taking in midsession to end L130 or 2.3 per cent higher at L5,710. The stock has been buoyed by optimism about the prospects for its Infostrada fixed-line unit.



Olivetti shares, which were the most heavily traded on the bourse yesterday, have risen 509 per cent since the start of the year.

Mediobanca, the merchant bank, closed L187 or 0.8 per cent up at L22,412 as investors continued to show faith in its prospects after the launch of the euro in the new year. The stock has gained 20.1 per cent in the last five sessions.

AMSTERDAM finished close to all square after a session of narrow trading. The AEX index was up 2.28 at 1,194.87 at the close, with financials providing some of the day's liveliest action.

ABN Amro ended off 10 cents at Fl 40.40 in 10.8m shares traded while ING gained Fl 1.30 to Fl 117.10. A dull day for the dollar sparked selling at KLM, which dropped Fl 1.50 or 2.6 per cent to Fl 55.80. Philips dipped Fl 1.30 to Fl 126.70.

HELSINKI fell for the first time in nine sessions as investors took profits from market leader Nokia.

The Hex index closed 91.06 or 1.6 per cent lower at 5,628.29. The index had risen 15 per cent in the previous eight days' trading.

Nokia, which closed at FM635.50 on Monday, reached FM640 before investors started to sell in earnest. The stock, which had climbed 20 per cent in eight sessions before yesterday, ended FM5.50 or 0.9 per cent down at FM630.

Raisio, the food group, continued its variable performance ahead of the US launch of Benecol, its cholesterol-cutting food agent. It lost FM3.30 or 5.6 per cent to finish at FM55.70.

Talentum, the media company, continued to enjoy the benefits of positive reviews on the bourse and in the media. The stock jumped FM5 or 6.3 per cent to close at FM85. It has gained 51.8 per cent in the last five days' trading.

MADRID gave back early gains after Wall Street opened lower. On a day of thin trade, the general index shed 12.9 to end at 9,940.7.

Although the index climbed above 10,000 at one point, dealers said investors had little incentive to buy further. The volume of shares traded was low at Pta109bn.

ZURICH slipped in a session that attracted little investor interest. The SMI index of leading shares dropped 52.5 or 0.7 per cent to 7,203.0.

Financial stocks failed to provide the kind of support they lent the market on Monday.

UBS fell SFr7 or 1.6 per cent to SFr422, while Credit Suisse Group closed SFr3.25 or 1.5 per cent lower at SFr220.25.

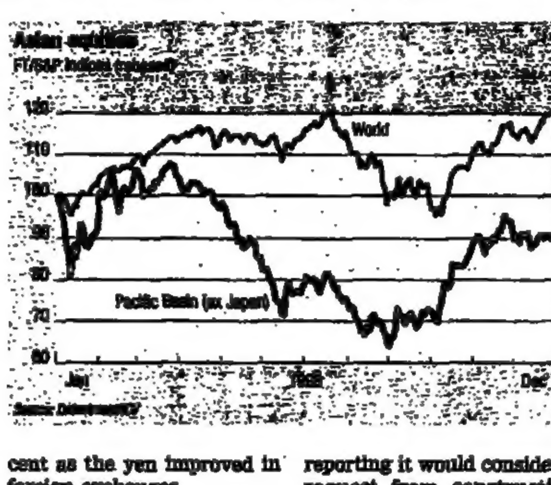
Written and edited by Jeffrey Brown, Michael Peel, Peter Hall and Paul Gregan

Tokyo moves ahead despite rise in bond yields

ASIA PACIFIC

Shares in TOKYO, boosted by last-minute trades of a large-lot futures order, rose in spite of a rise for ten-year government bond yields, *writes Alexandra Nusbaum.*

The Nikkei 225 Average rose 137.84 or 1 per cent to close at its session high of 13,846.90 after trading as low as 13,664.79. The Nikkei 300 rose 2.08 to 216.81 while the Topix index of all first-section shares rose 8.94 to 1,086.83.



Volume was light with 225m shares traded. The momentum was up, with 695 shares advancing and 435 declining.

Toyota Motor gained Y160 to Y3,130 and Nissan Motor Y11 to Y346. Sectors dependent on dollar-denominated raw materials like forestry, paper and pulp, and iron and steel, rose more than 2 per cent as the yen improved in foreign exchanges.

Oji Paper rose Y21 or 3.6 per cent to Y589, Nippon Steel Y5 to Y208, Kawasaki Steel Y9 to Y174 and Sumitomo Metal Y3 to Y128.

The bank sector fell 0.7 per cent, with Sakura Bank down Y5 to Y256 after reporting it would consider a request from construction company Fujita for debt waivers. Fuji Bank fell Y6 to Y425 on a report it would sell Y217bn in new shares to Fuyo group companies.

Tokio Marine and Fire Insurance rose Y43 to Y1,377 on local newspaper reports that it planned to transform its derivatives venture with Bank One into a securities brokerage.

Matsushita Electric Industrial rose Y21 to Y2,005 after announcing the purchase of an 8.1 per cent stake in PolyGram, the music company recently acquired by Seagram of Canada.

The yield on the 10-year government bond rose 18.5 basis points to 1.87 per cent. In Osaka, the OSE index fell 11 to 14,646.

HONG KONG rallied but volumes stayed minimal and brokers said trading was again mostly technical with futures-related trading dictating direction. News of a 7.1 per cent third-quarter contraction for the economy came after market hours.

HSBC rose $2 to HK$197.50 to account for about half the overall 55.83 rise to 10,225.97 on the Hang Seng index. HK Telecom added 15 cents to HK$13.90. Fabric maker Ying Wing made a smooth debut, closing at HK1.01 against a flotation price of HK1.

KUALA LUMPUR pushed higher as local funds bought selective blue chips ahead of the new year. Tenaga rose 30 cents to M$6.50 and Telekom 40 cents to M$8.90. The composite index ended 10.09 or 1.8 per cent ahead at 566.23.

BANGKOK was dragged down by a fall in banking stocks. The composite index closed 8.48 or 2.4 per cent lower at 351.81.

The banking sector index lost 5.3 per cent. Brokers said investors had become more wary of banks since the central bank announced on Monday that there had been an increase in non-performing loans.

Klatnakin shed Bt0.75 or 6.4 per cent to end at Bt11, Krung Thai Bank dropped Bt2 or 9.4 per cent to Bt19.25 and Siam Commercial Bank fell Bt1.75 or 9.2 per cent to Bt17.25.

MANILA prospered on late buying of blue-chip stocks. The composite index ended 35.84 or 1.9 per cent higher at 1,968.78 compared with its 1998 starting level of 1,891.27 and a year-low of 1,082.18 in September.

SOUTH AFRICA

Shares in Johannesburg improved for the third day running, with financials continuing to push higher. The all share index rose 47.7 to 5,396.5.

Money market rates continued to soften and financials gained 2 per cent amid hopes of interest rate cuts. Investec jumped R8.40 or 4.5 per cent to R199.80.

In metals, Implats rose R3 to R78.

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